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and BUSINESS ANALYST

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FACTORS BEHIND UNREALISTIC MARKET

TRUMAN 10-YEAR PLAN—A DESIGN FOR A NEW SOCIAL AND ECONOMIC ORDER?

—THE PERILS AND ALTERNATIVES TO A WELFARE STATE

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By WARD GATES

★

A STUDY OF THIRD QUARTER EARNINGS

—WHERE THEY MAY PETER OUT . . . WHERE CONTINUE

By J. C. CLIFFORD

The year that got away—

Long ago, he'd planned the year, the day, the hour of his retirement.

But now, a year beyond that date, his desk is still open . . . the weekday trout still in the brook.

What happened? Unexpected expenses . . . Nickie starting college . . . the last of Mom's hospital bills. He never really figured it out. But the happy day he planned was no longer in sight.

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THE MAGAZINE OF WALL STREET

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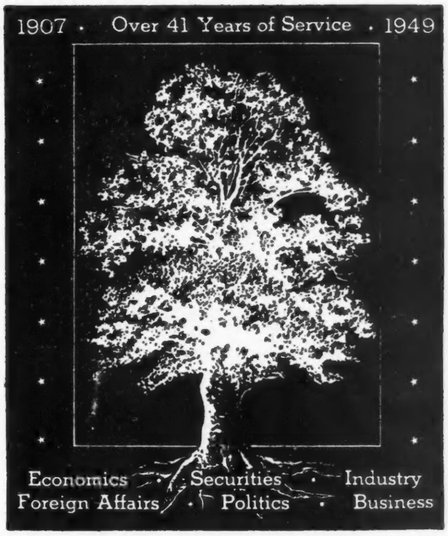


The Trend of Events

WHERE THE MONEY GOES . . . Figures compiled by the Department of Commerce on where the people's money comes from, and where it goes, show that the aggregate cost of Government in the United States—Federal, State and local—has become the rival of food as the biggest single charge on the public's purse. Clothing and shelter have been left far behind.

Such relationships have few peace-time precedents, and then only since the war and in the deficit financing period of the Thirties. Hence they provide a clear insight into the impact of the rising cost of Government and the consequent burden of taxation to support it, on the people and on the economy at large.

Department of Commerce figures give the aggregate value of all food expenditures in 1948 as $52.9 billion. The total cost of Federal, State and local Government last year was $51.8 billion. For every dollar spent on food in the nation in 1948, the cost of Government was 98 cents. The same ratio in 1947 was ninety cents. Back in 1929 it was only 52 cents, a ratio little more than half that of last year.

There are other significant comparisons: The overall cost of Government in 1948 was the equivalent of more than three times the year's expenditures on housing; over double the cost of household operation, and that includes everything in running a home; more than twice the amount spent on clothing, accessories and jewelry combined; three times the cost of all transportation outlays, including automobile purchases and their operation. Except for transportation, the people spent more on each of these classifications in 1929 than they did on Government.

Just how much the cost of Government has risen is shown by the following: The total cost, as defined before, in 1948 has soared 407% over 1929 and 182% over 1940. Federal Government expenditures alone are up 1,236 % and 251% respectively; state and local costs are higher by 139% and 102% respectively. The resultant squeeze on the economy and on peoples' incomes is best illustrated by the fact that national income has risen by only 159% and 178% respectively; disposable personal income (income after taxes) by 131% and 152% respectively; wages and salaries payments by 170% and 173% respectively.

This is a disquieting picture, still economy in Government seems about as elusive a prospect as ever. The first session of the 81st Congress bequeathed the taxpayers a legacy of some $5 billion of additional public debt, to be accumulated in the next fiscal year, another nail in the coffin of economy. With reckless disregard of the first principles of sound business, Congress has utterly failed to take the elementary precaution of providing for additional revenues wherewith to meet the additional expense, by weeding out superfluous and unnecessary expenditures wherever indicated. At that rate, the cost of Government in 1949 is likely to exceed the nation's outlays for food.

Yet the cry today is for more and higher taxes. President Truman calls for them to end deficit financing, declaring the only way to do it is to raise taxes. There is indeed no other

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

way so long as the current concept of Government prevails. Our suggestion is economy, a paring down of the prolific spending to which the Administration appears committed. It's far sounder, all around less painful and particularly less ominous for the country's future and solvency.

COLD SHOWER . . . The report of the Economic Cooperation Administration on the follies and distortion of world trade in general, and our own share of it in particular, acts like a cold shower which we can only hope will shock our policy makers into proper action, or if not, taxpayers into demand for such action. By action we mean revision of policies which patently have led us nowhere than into a big hole.

To be told that of our so-called "favorable balance" of trade of $101 billion since 1914, more than two-thirds took the form of outright grants and unrepayable loans gives a fair and at the same time depressing measure of the uneconomic policies which we have pursued, and still are pursuing. That two-thirds, fully $68 billion, come or will come out of taxpayers' pockets. The report is distinctly understating when it says that there is nothing particularly healthy about such procedure.

The desirability of substituting genuine exchange of goods for the enlightened self-interest of gifts is too obvious to be questioned. The problem of course is how to hurdle obstacles such as tariff walls and vested interests in industry and agriculture which make a free flow of goods so difficult to attain. It demonstrates the absurdity and harmfulness of our former tariff system which did no one any good except the protected interests, and even they will find that they lost out in the end, for they too are taxpayers and must help make up for the $68 billion gap. Our tariff policy has returned to economic sanity only since adoption of the reciprocal trade policy sponsored by and initiated under Secretary of State Hull. ECA now helpfully offers a series of suggestions for stimulating imports into the United States, accompanied by expansion of American investments abroad. The alternative: Lower standards of living in most countries abroad and painful dislocations at home.

Unfortunately there are stubborn factors which render any quick or easy solution impossible. Among these are the drift of world trade since the war; the difficulties we encounter in playing our proper role as the world's leading creditor nation; the cold war, dividing the world into two hostile zones; the growth of industrialization in hitherto backward countries and revival of competitive production in western European countries.

However, the ECA report is testimony that at last we are beginning to see some light. While it doesn't make the magnitude of the task any less, it points up sensible directions to take, however inadequate the suggestions may seem in relation to the colossal problems facing us. They make it clear, beyond the shadow of a doubt, that we cannot eat our cake and give it away at the same time. This may work for a while, as it has done it the past, but it cannot go on forever without pulling us down.

NOBODY WINS . . . In this strike-filled period, it is interesting to examine just how some strikers recently benefitted from prolonged work stoppages. The Hawaiian dock strike had lasted fully 176 days. The CIO's longshoremen's union originally demanded a wage increase of 32c an hour for some 2,000 stevedores. The negotiated settlement gave them an increase of 14c an hour—the amount recommended by a fact-finding board last June, plus an additional seven cents an hour next March. Hawaii's losses because of this strike are estimated at over $100 million; the stevedores' loss of wages during the strike at over $2.5 million. Even at the new pay rate, it will take a long time to make up for it if they ever can.

The Missouri Pacific railroad strike lasted 44 days, growing out of a controversy over interpretation of operating rules. Some 5,000 personnel was directly affected by the controversy; almost 20,000 other Missouri Pacific employees had to be laid off because of the strike. The cost of this strike is estimated at about $12 million in wages lost, $24 million in business lost to the railroad, and many millions more to other business affected by the traffic stoppage.

Nobody won these strikes. Workers as well as employers, not to mention those indirectly affected, today would be better off if the strikes had never occurred and been settled by reasonable compromises before they began.

It will be the same in the case of the steel and coal strikes still going on. At this writing the coal strike is in its 40th day, the steel strike in its 28th day. Immense losses have already been caused, and the strikes are becoming more costly every day. John L. Lewis has never given a clear explanation of what the coal strike is about; his "negotiations" with the mine owners have broken down. The steel strike revolves on a "principle", whether the steel companies should pay the entire cost of pension and insurance plans or whether the workers should contribute part of it.

Eventually these strikes, too, will end or be ended by Government intervention. Until they do, their malign effects will daily become more apparent. Here, too, nobody in the final analysis will win regardless of who may appear to be favored by the terms of strike settlement. Both industry and workers would be better off if the strikes had never occurred.

MINK ECONOMY . . . We are indebted to the Economic Intelligence Bulletin of the Chamber of Commerce of the United States for the following gem throwing an unusual spark of light on life in a planned economy. Says the Bulletin: "Nowhere do the paradoxes of the planned economy show up more clearly than in the attempt to juggle prices. As a very minor example, consider the mink situation. Mink farmers complain that business is poor, so the government is bailing them out by lending them about half a million dollars."

"Indirectly, the loans help to support fur prices, a fact which does not improve their marketability. But more than this, the farmers claim that the main reason for shrinking sales is the wartime luxury tax of 20% being collected by another branch of the same government that is lending them the money. Meantime, the government has the mink and their offspring as security; and if business really gets bad, we may even see socialized fur coats on the market."

No comment is needed on the absurdity of the situation, but we can understand if aspirant mink coat owners feel cheated, and taxpayers abused.

As I See It!

BY CHARLES BENEDICT

WE IMPROVISE — THE KREMLIN PLANS

A great deal has been said about the need for long-term planning in our foreign policy, and yet Russia's ability to install a puppet government in Germany clearly indicates that we are still resorting to improvisation and the use of expedients. Certainly we have yet to take the initiative in checking Russian moves before they occur. We seem merely to wait until we are confronted with a fait accompli before we set about devising means that will minimize the danger. To continue such a policy in the face of the strategic gains made by Russia is foolhardy, to say the least.

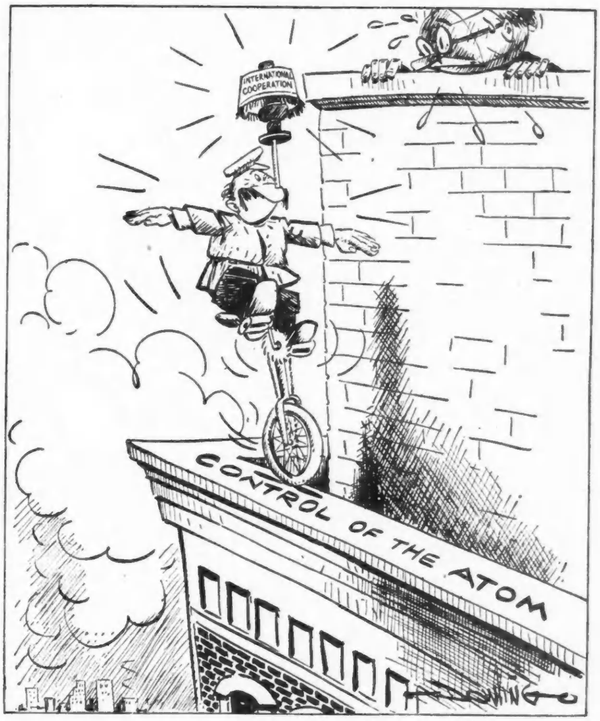
The success of the airlift last year should not encourage us in the belief that we can always solve our problems by native ingenuity and resourcefulness. As it has turned out, the airlift was merely a stopgap. It helped to smooth the way for the Marshall Plan and the Atlantic Pact. It threw the Russian timetable out of gear, delayed her plans regarding Germany, and stymied her campaign in Europe and in the Middle East. Yet it only delayed action for a more propitious time.

This came with Mr. Truman's announcement of the atomic explosion, and Russia immediately took advantage of the consternation that swept over the West by installing, in Germany, a puppet government, long set up and awaiting the proper psychological moment to be launched. She did so at a time which left no doubt of her power to do so without serious opposition.

We are, therefore, once again facing a renewal of the struggle for Germany, the intensity of which will grow increasingly dangerous, especially since Russia has the advantage of being able to make decisions without consulting the heads of any other government, while we are obliged to strike a balance between the special interests of the individual countries which make up the Western bloc.

Already there has been a weakening of purpose in the West as a result of Truman's announcement of the atomic explosion. The British Government has been wobbling terribly in its adherence to the United States, and has tried to straddle on issues involving Communism. In fact, the British Government is largely responsible for the Chinese fiasco, and its appeasement of the Communists there has so greatly strengthened their position that British power is not only shaky in Hongkong and elsewhere in China, but has, in fact, become vulnerable in the entire Far East, as well as in Africa which the British were developing to offset their losses elsewhere.

"FUN ON THE LEDGE"



Dowling in the N. Y. Herald Tribune

In France, too, the political situation has been deteriorating. While a new government, after a prolonged crisis, has finally been organized, it is destined to be a shaky one like those preceding it, in view of the apparent difficulty in reconciling the fundamental and political differences that divide the Third Force, and the pressure exerted against the latter by the extreme Left and Right. Thus the situation is fraught with danger for the United States which has been counting on making France the bastion of Western defense in Europe.

In the meantime, the worsening of the economic situation has added to the feeling of uncertainty and anxiety abroad, and the devaluation of the British pound has acted further to affect adversely the economic balance on the Continent. Particularly because of this, we face a difficult problem regarding the encouragement and support of a sovereign Western Germany that can resist the challenge of the East. Here the political dilemma is intensified by the possibility that the economic revival of Germany would bring serious competition to Britain, France and Belgum.

Of course, the real emergence of Germany as an industrial competitor and political factor in Europe was not given consideration in the original Marshall Plan conception, but because of Germany's particular talents for organization and industrial production, the possibilities are that Moscow's new political offensive will oblige us to (*Please turn to page* 149)

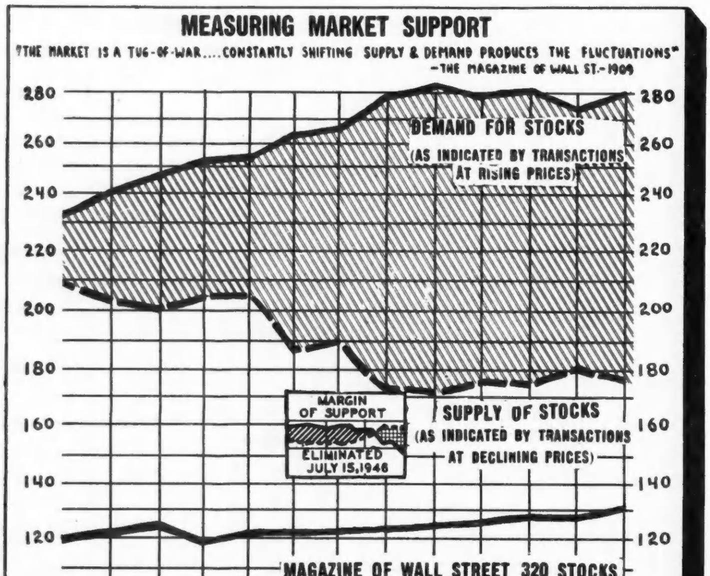
Factors Behind Unrealistic Market

The intermediate rise was carried moderately further over the past fortnight, but is currently meeting resistance and is becoming increasingly selective. The economic and psychological factors can hardly be said to be in close balance. Some are on the supporting side, but most others restrain optimism. A conservative, discriminating policy is still in order.

By A. T. MILLER

The generally slow and irregular advance in the stock market has continued during another fortnight, with selectivity perhaps the most pronounced feature. After roughly a 10-day pause, which evidently improved the immediate technical position, the daily industrial average advanced, within the final week of October, to a new recovery high by a moderate but clear-cut margin. It did so despite spreading industrial slow-downs and lay-offs resulting from the steel and coal strikes, and despite the President's manifest reluctance to intervene in a situation which can before long bring complete stoppages of production in some important industries.

The rail average is barely "keeping the franchise." It has not yet bettered the rally high reached about three weeks ago, is only nominally higher than it was as far back as early August, and remains materially under its previous 1949 top, seen last January. However, this is a negative performance, rather than a positively weak one. It has been demonstrated in the past that the industrial list could trend up for extended periods without definite aid from the rails. Even if you attach barometric significance to rail action, which we do not, it would take a zig-zag downward tendency in this group to raise any kind of a "storm signal." In our view, rails are just one of many stock groups and are lagging because of the basic vulnerability of this industry, and the poor dividend record and outlook of the great majority of individual rail stocks.



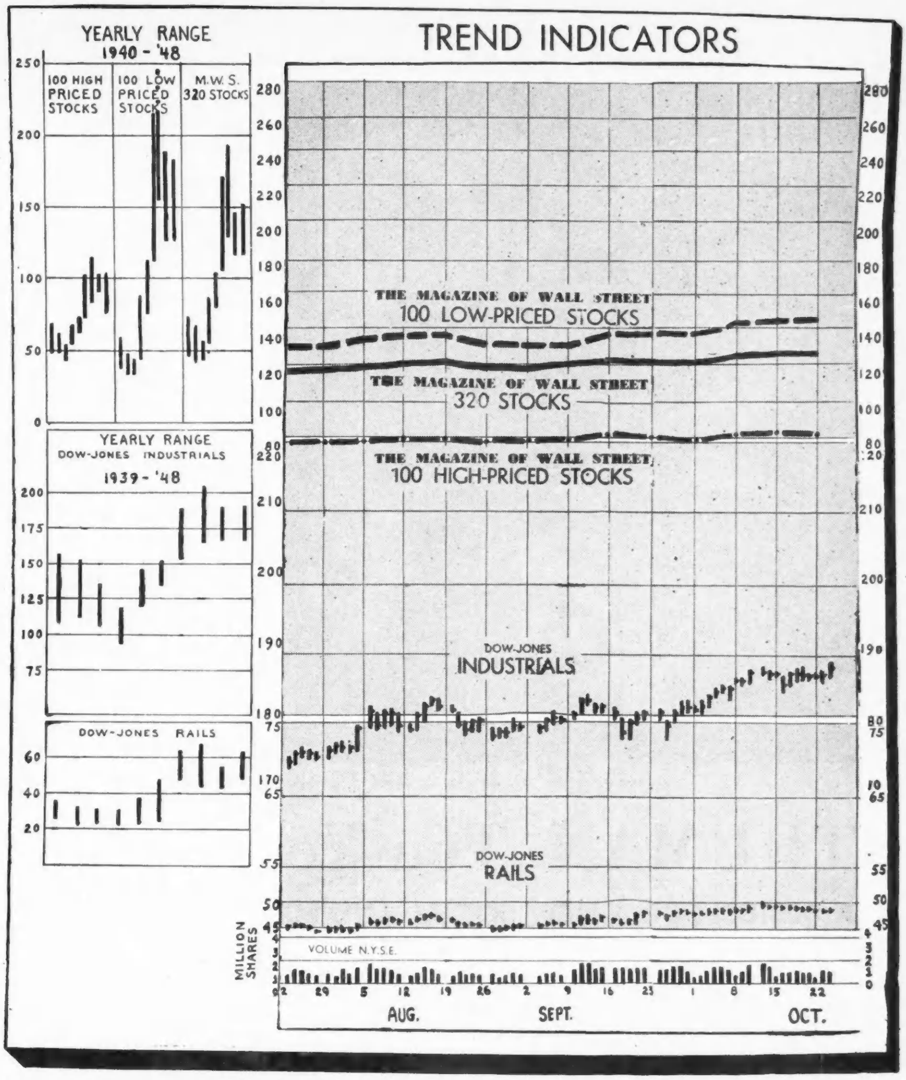
The Going Is More Difficult

The advance in utilities since last June, although at a snail's pace most of the time, has been the most persistent of any important group. By a slight margin, this average recorded another new high for 1948-1949 within the latest week, but the going is evidently getting harder. Prevailing dividend yields are still fairly good, but not outstandingly attractive to new buyers, on a relative basis. Dividends are still being increased modestly here and there, which tends to support the group; but the purpose is to facilitate equity financing, and this is in heavy enough volume, actual or prospective, to keep a reasonably effective checkrein on the stocks. They are not going to run away.

Neither is the industrial list; and the usual addiction to reactions of some scope, absent in recent months, has not been broken. The habit will reassert itself in due time. The rise of the industrial average since June remains more impressive in duration than in scope, for it has run twice as long as any previous intermediate move since the bull market topped out in 1946; but it has yet to better decisively either the pre-election rally high of October, 1948, or the moderately higher top of June, 1948. Both represent formidable supply levels. As measured by daily share turnover, it will take a stronger investment and speculative demand than has yet developed to carry to market definitely above these supply areas, if they can be sur-

mounted at all.

The factors at work remain highly mixed. That is so of the fortunes of individual companies, making for "a market of stocks." Some issues have risen strongly, some are not far from their 1949 lows. Indeed, so far in 1949, more has depended on what stocks one held, than on what the averages did. The explanation for this can be seen in the third-quarter earnings reports and in diverse dividend news. Profits of some companies are sharply under year-ago levels, those of others sharply higher. Some dividends are being cut or omitted, others are being raised. In the last week, earnings surprisingly high were reported by leading steel and automobile concerns; and there were dividend boosts or extras, mostly more liberal than had been expected, by a fair number of prominent companies, including Chrysler, Texas Company, Deere, Standard Oil (New Jersey) and American Home Products. Yet late in the week, with this concentration of good news out, the market was becoming somewhat sluggish under profit-taking.



The business picture is mixed and confused. Strikes have lowered the index of industrial production sharply, and their uncertain duration makes dependable business forecasting for the early future impossible. If they end quickly, production will turn sharply upward in November, having fallen from 172 (1935-1939=100) in September to an estimated 152 for October. If they last additional weeks, it will, of course, go still lower. Some of this lost production will be made up in 1950, perhaps enough of it to make economic activity in the forepart of the year considerably higher than it could otherwise be. Thus, from either point of view, the strikes add an artificial factor. Market indifference to them is not new. As we have noted before, strikes have rarely unsettled stock prices significantly.

Investment Psychology Also Mixed

More important is the question: What do the basic economic factors portend for 1950? Will Federal deficit spending offset the downtrend in business outlays for new plant and equipment, and the sag in exports? Will further gains in residential building and public works offset expected lower output of automobiles and other consumers' durable goods? Will consumer income hold close to the 1949 level? If the answers to these questions are affirmative, average production next year will not differ greatly from that of this year, the range of fluctuation (aside from strike influences) will be moderate, and total dividends will be relatively well-maintained, despite a probable moderate further shrinkage in aggregate profits under more competitive conditions.

It is too early, of course, to attempt to predict the answers. Clearly, investors — and speculators — feel more hopeful than they did not so long ago despite inability to appraise accurately the outlook. Whether their increased confidence is mistaken, and to what degree, time alone will tell. Measured solely in terms of stock prices, confidence was about as great just before the last national election as it is now, and still greater in June of last year. In terms of subsequent market action, it proved mistaken. What does it rest on now?

Possibly on two things in combination: (1) reduced fears as regards the potential severity of postwar economic adjustment; and (2) some raising of sights as regards the general level of "normal" postwar activity. Obviously, Federal deficit spending has something to do (*Please turn to page* 150)

Insert shows Dr. Edwin G. Nourse and Leon Keyserling, dissenters on welfare program

photos by Press Assoc.

TRUMAN Ten-Year Plan

A DESIGN FOR A NEW SOCIAL AND ECONOMIC ORDER?

By E. A. KRAUSS

Those who think that the action of the eighty-first Congress at its first session just ended can be considered an effective blow against President Truman's Fair Deal goal may in the end find that such thinking involves a good deal of wishfulness. And wishing won't make it so.

True, the legislative record proved barren of completed action on most of the President's proposals aimed at bringing nearer the welfare state, the new social and economic order implicit in the Fair Deal. Still Congress nevertheless has merely checked, but far from defeated the President. Instead it has laid some firm foundations for the social-economic structure which the President favors. Despite setbacks, the movement has been towards rather than away from Mr. Truman's goals, and is apt to progress further at the next congressional session.

Thus while to believers in the welfare state, progress may have been slow, to others it may seem merely gradual but inexorable. Health insurance has been shunted aside, as was the grandiose plan for establishing the Federal Government as the chief controller of the national economy with regulatory powers over prices, wages, credit, production and distribution. The Congress balked at tax increases, Taft-Hartley Law repeal, bigger old age benefits and unemployment insurance, the Brannan Plan, and easier credit for home building.

But it did pass the minimum wage law, extended price supports for farm products at 90% of parity for another year, paved the way for extensive low cost housing subsidized by the Government, and generally for larger public works, all measures fitting into the Fair Deal program as expounded by the President last January and reiterated since in frankly political speeches. The Fair Deal, in fact, is very much alive both as a political and economic concept and as a powerful vote-getting lure. It will be furthered by the resignation of Dr. Nourse from the chairmanship of the Council of Economic Advisers, leaving Messrs. Keyserling and Clark, two full-blown New Dealers, in favored position as the President's chief economic advisers—almost regardless of who will succeed Dr. Nourse. The Council is entering a new phase, and will be far more active in politics. Its advice to the chief executive henceforth will be "New Deal" pure and simple.

Thus regardless of what Congress did, we find the Fair Deal far from dead. It has been compressed neatly into a ten-year plan which the President has publicly accepted as the New Deal objectives fixed by Government planners. These objectives will be actively pushed in the coming campaigns, both in 1950 and 1952. Their essence was propounded by the President last January in his annual economic report, and reiterated in his September 27 radio address and on other occasions. The battle to-date may have been a draw, but we can be sure it will be vigorously resumed. And the Fair Deal's alluring political appeal should by no means be underestimated.

Here is why. The ten-year plan envisages a step-

ping up of national income to $300 billion annually from currently around $225 billion, the raising by one-third of the U. S. standard of living, the promise of a $4,000 a year minimum income for each family. "That is not a pipedream," Mr. Truman said when he held out the latter prospect, adding that a quarter of the population who now receive less than $2,000 a year would receive $4,000. Actually close to three-quarters of the nation's families on basis of last year's income statistics have a cash income, before taxes, of less than $4,000 a year. The appeal of such a promise to such vast numbers is patent, further strengthened by projected $100 monthly pensions for the aged, by higher unemployment benefit, health insurance, more aid to the farmers, more aid to housing and education, big public works.

To Boost Gross National Product to $350 Billion

Altogether, as the planners see it, it would imply a stepping up of the gross national product (the amount of goods and services produced) from currently $260 billion annually to some $350 billion ten years later, by means of steady growth of economic activity induced by various measures. Even business would benefit. According to the planners' blueprint, of the added $90 billion in national output roughly one-half would accrue to low-income families and farmers, a fourth to business and upper-income groups, while another fourth would go for social welfare projects.

In all this, the big question is: Where will the money come from? And another: Just what will be the actual cost of such a grandiose program which like most of them have a way of growing in scope and expense as time goes by?

It is difficult if not impossible to estimate the costs, some of which cannot be determined such as farm income supports, already a major budget item. It's been computed, however, that in coming years it might add between $15.9 billion and $34 billion to the annual budget. But whatever the cost, the money of course will have to be raised in taxes, or else through deficit financing. The theory is that the resultant broadening of our economic activity will readily produce the required addition to tax revenues. Until proved, however, this remains a theory, and a highly tenuous one. Much more likely, carrying out any such program will require steep tax boosts, and since these are politically distasteful, deficit financing — spelling more inflation. In short, the probabilities are that the desired expansion can only come about with the aid of policies and methods (already practiced) that may bring back inflationary spirals. If so, what price higher income if the purchasing power of that income is to be diluted?

Is It Feasible?

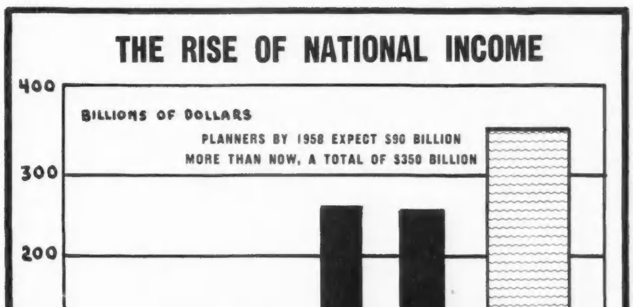
It would of course be a fine thing if annual national income, within a ten year span, could be raised to $300 billion through sound and natural economic forces but this is not a logical prospect in view of the enormous increase that has already occurred during the past decade. Today production of goods is already high and employment near maximum. Any further progress, to be sound, must come about gradually and naturally, and not forced by an enormous increase of Government spending in which inflation is not only implicit but inevitable and quite probably deliberate. No wonder Dr. Nourse insisted on resigning when the President accepted the Keyserling thesis underlying the ten-year plan. He did not like the casual way the country seems to be drifting towards more inflation and socialism.

For there is no difference between a planned welfare state and a socialistic state. The people are told what the Government will give them, and it is but human nature to like something for nothing. Few, however, realize that actually there is no such a thing. Some pay for it with higher taxes, all pay for it with diluted purchasing power of their incomes or savings, with more regimentation and increasing loss of individual freedoms. Three broad highways lead to socialism: Increased Government power; increased power of organized labor; and wider distribution of income for social services. We are travelling all three highways today. We are slipping into welfare state socialism not only by Government planning but by Government support of farmers' demands and labor's goals, at the expense of the taxpayer and consumer, and if we don't watch out, of national solvency.

Realities vs. Glittering Political Promises

The disadvantages of the Fair Deal trend are well recognized by the sober-minded, by those who refuse to accept glittering political promises without inquiring into their ultimate costs. Foremost among the drawbacks are mounting taxes and deficits, an increasingly less resilient economy, finally becoming rigidified, destruction of open markets, and a loss of private and personal initiative. The forerunner —growth and concentration of Government power— is already here. The inescapable conclusion is that a welfare state is merely a prelude to a socialistic state. Its advent is bound to mean the end of the American system as we have known it, and under which we have flourished and progressed.

What about an alternative? There is one, and American business can provide it, granted that Government and the nation's principal economic partners agree to cooperate. The welfare trend has become deep-seated enough to make it futile and unrealistic to deny it, or oppose it. Nor does it make sense to deny the justifiable demand of the people



for social advantages and security. It is consonant with the necessities of social evolution. *But we should try to satisfy it without recourse to either a socialistic or authoritarian state.* There should be an effort instead to transfer responsibility and initiative from the Government to private hands insofar as this promises results, and it can.

As to business, it must of needs accept the fact that under today's conditions, the Government's welfare activities are bound to expand in some degree. It is a world trend that can hardly be countered successfully. But Government, and those groups supporting Government's entry into the welfare field, should also accept the fact that we cannot have full employment and a sound economy (the latter a requisite for continued full employment and prosperity) unless business is encouraged rather than persecuted.

Progress and Expansion Under Private Enterprise

If it is encouraged, we can have economic progress and expansion under private enterprise fully adequate to meet the people's desires and needs for prosperity and security. If business is hounded to death, there will be neither, in the long run, regardless of what Government does along socialistic lines. The standard of living is bound to fall under the cumbersome system of red tape characteristic of socialistic planning and living; initiative will die and the "levelling process" will end up at the lowest level.

At present, Government is hampering business in three main directions: by taxation, regulation and competition. High taxes at this time may be inevitable, but excessive or punitive taxation only defeats itself in the end. Goverment competition with business is unfair and destructive. It should be cut to a minimum and only undertaken when need for such action, in the national or public interest, is demonstrated beyond doubt. The Government, finally, in its application of business regulations should veer away from the latest trend of administration of regulatory statutes and their judicial interpretation along far-fetched and repressive lines. And above all, Government as well as business should recognize that there is no dependable way of stabilizing the business cycle. Even Mr. Keyserling admits that there can be no absolute stability, that no compensatory public spending can stabilize the economy or, alone, pull us out of a bad depression. Then why attempt it by introduction of a new social and economic concept that will destroy what we have, but cannot guarantee success?

Washington planners like to reiterate their belief that Government economic policy should focus upon creating an environment so favorable to sustained private production and employment at high levels that the "compensating role" of Government may be held to easily manageable proportions. It is a good thought, and a highly desirable goal. But when they try to establish policies and procedures as yardsticks for such a free enterprise system that cannot be lived up to, the threat becomes clear: They are likely to be used later as "justification" for further Government encroachment on business.

This is what frequently happened in the past and what likely will continue to happen; and as long as it continues, the Government's professed willingness to encourage business will be taken with a big grain of salt. For it does not create the environment favorable to sustained prosperity.

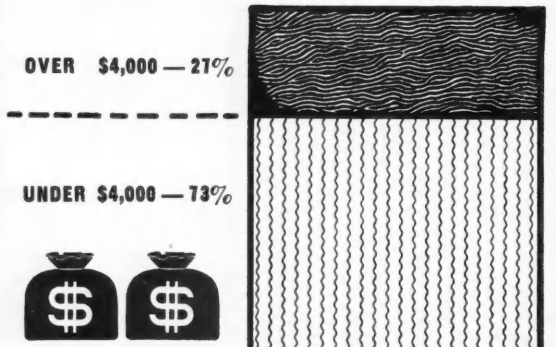
Government, Business, Labor Should Cooperate

To create and maintain the latter, it is essential that Government, business and labor never cease in their joint effort to avoid disruptive influences, that they not only cooperate practically but in their social and economic thinking. This includes abandonment of, or opposition to extravagance and inefficiency not only in the conduct of welfare activities but in the formulation of grandiose plans which are beyond the capacity of our national resources and threaten insolvency rather than stability or progress. Particularly where borrowing is necessary, care in spending becomes a first necessity. Careless and extravagant spending is merely a short-cut to disappointment and disaster.

We should learn from the experience of others. Look what's happening in England. The British welfare state, young as it is, is already beginning to show up tremendous flaws, bringing hardships, economic retrogression and general disillusionment with the "spoils system" which it *really* is. It would be foolish to assume that we can have a "Santa Claus" state without going the same way. The theories of Lord Keynes, so eagerly patterned by Mr. Keyserling and other top planners, have not been working well in practice.

In the last analysis, it is in the direct interest of all those who hope to benefit from the welfare state, to take a realistic view. Labor engaged in a siege of industry for non-contributory pensions, farmers pressing for a guaranteed income, prospective beneficiaries from old age pensions, they all have as much at stake as business and industry in the soundness of Government fiscal policies, or lack of it. Unbridled Government spending, breeding further inflation, will undermine their purchasing power as well as their security. While today, they may not care who pays the piper, they should care what in the end it will get them. In due time, wage earners as well as pensioners will evidence acute interest in what their income will buy. Once that time comes, they may care less for the guaranteed minima of the welfare state than for (*Please turn to page* 149)

THE $4,000 ANNUAL MINIMUM INCOME GOAL, ON BASIS OF 1948 INCOME DISTRIBUTION, WOULD AFFECT NEARLY THREE-QUARTERS OF THE NATION'S SPENDING UNITS.



Which Companies Show Best Return on INVESTED CAPITAL?

By WARD GATES

Frequently overlooked in the study of various enterprises is the degree of efficiency attained in earning a satisfactory return on capital invested in the business. Emphasis on earnings in relation to sales or to the number of shares outstanding is such a common practice that scant attention is often given to what is really the fundamental aim of all managements, that is to say, the profitable employment of risk capital available to conduct their operations.

Marked or neglible success to achieve this goal, though, does not always reflect varying ability of those in charge of a business to earn an adequate return. Different forms of enterprise may require large or small amounts of capital, depending on inherent needs for physical equipment, promotional expenses, patent positions or the element of trained talent. History has recorded many instances of hugely capitalized ventures that have been a complete flop and as many more where large profits have been earned on a relatively small amount of capital invested. Unavoidable operating handicaps due to location of plants in relation to markets, drastic shifts in demand for certain products or broad competitive factors have frequently precluded the attainment of anything like an adequate return.

On the other hand, the informed investor can uncover many concerns where the yardstick of earnings relative to net worth from year to year promotes confidence not only in the management but in the basic advantages of the business as well. At this point it is well to point out that "net worth" in our discussion embraces combined preferred and common stock plus capital or earned surplus. This basis of figuring net worth is very conservative in that it does not include special reserves for contingencies or potential inventory losses. Until these reserves are actually drawn upon, they represent retained earnings utilized as capital, though no credit as such is accorded them. If no longer needed, they eventually will be transferred to earned surplus and swell net worth accordingly.

We mention this matter because these reserves often represent very substantial amounts and may distort the ratio of earnings to net worth in many cases.

For the purpose of our study, we have assembled quite a list of concerns representing about twenty different industries. In tabular form we have arranged these concerns in their respective groups in order to make intra - industry comparisons more interesting. We show the percentage returns on net worth for 1939, 1941, 1946 and 1948, and to add weight to our discussion, we also present net profit margins on sales. The years covered afford a chance to compare operating factors under rather different economic conditions, while the broad variations in company ratios in a single period stimulate efforts to determine their reasons.

The steel industry, as we all know, requires vast amounts of capital, but though per share earnings may loom large in good years, the return on net worth has been quite modest relative to the risks involved. Take United States Steel, for example. This giant concern's earnings on net worth in the four periods shown on our table ranged from a low of 3.1% in 1939 to a high of 8.1% in 1941, and in 1948 were 7.7%. Large scale increase in net worth last year involved many new projects that as yet were not productive, thus restricting the ratio regardless of larger profits. The ratio of net earnings to sales, at 5.2% last year, was less than the 7.1% for 1941, indicating heavy reliance on expanded volume. Bethlehem Steel Corporation in 1948, though also embarked on a large expansion program, managed to earn 14% on its net worth, double the ratio attained in 1941, while good cost controls enabled the company's profit margin on sales to rise to 6.8% compared with 3.5% in 1941 and 5.3% in 1946.

Industrial Rayon Corporation

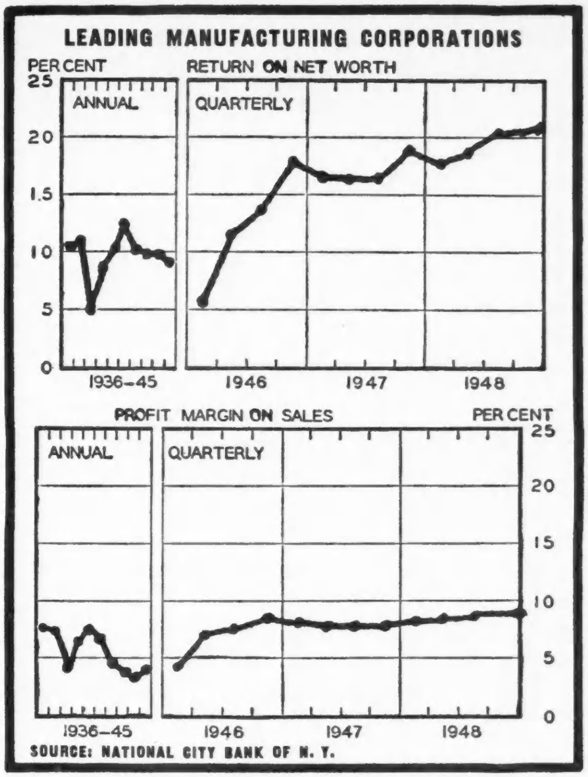
In recent postwar years, the textile group experienced a boom period that brought record sales and profits. Due to an insatiable demand for rayon yarn, Industrial Rayon Corporation has forged ahead at high speed, earning 32.6% on net worth in 1946 and 28% last year compared with only 6.4% in 1939 and 10.7% in 1941. This gain has been achieved in part because larger sales and adequate margins lifted the ratio of profits to sales to more than 22% in recent

Fluctuations in Return on Net Worth and Profit Margins on Sales

	Percentage Return on Net Worth				Net Profit Margin on Sales			
	1939 %	1941 %	1946 %	1948 %	% 1939	% 1941	% 1946	% 1948
Aircraft Manufacturing								
Douglas Aircraft	20.8	51.0	3.1	7.9	10.3	10.0	2.04	4.91
United Aircraft	28.7	42.1	5.5	8.1	18.0	5.4	5.03	4.5
Automobiles								
Chrysler	23.6	22.6	9.5	23.1	6.7	4.5	3.0	5.6
General Motors	17.3	17.9	6.1	24.4	13.3	8.2	4.4	9.3
Automobile Accessories								
Bendix Aviation	15.5	35.5	1.2	13.4	10.7	8.4	.7	6.9
Borg-Warner	14.6	16.6	10.6	23.2	8.8	6.2	6.5	8.4
Briggs Manufacturing	6.6	16.1	11.2	22.4	2.8	4.3	3.4	3.9
Electric Auto-Lite	27.3	23.3	8.4	19.3	10.0	6.2	3.3	5.8
Timken Roller Bearing	17.7	21.4	10.3	20.9	18.1	10.5	6.8	10.9
Baking								
National Biscuit	10.7	9.8	14.4	14.7	13.1	9.6	7.1	5.6
Sunshine Biscuit	4.0	4.8	26.4	23.4	2.9	2.7	8.3	6.7
Building								
Johns-Manville	8.6	12.3	7.5	16.3	7.7	6.4	6.3	8.9
Lehigh Portland Cement	6.5	6.3	7.9	13.9	15.2	10.0	11.7	14.7
Lone Star Cement	8.2	9.4	11.3	15.2	16.8	13.3	13.2	14.2
Otis Elevator	7.3	6.9	12.5	24.1	11.6	7.6	11.0	13.1
Pittsburgh Plate Glass	10.3	13.7	12.6	18.0	12.9	11.7	9.2	10.6
U. S. Gypsum	12.3	10.9	15.0	18.8	17.0	11.0	14.5	16.5
Chemical								
Allied Chemical & Dye	12.4	12.1	12.9	13.9	12.5	8.6	9.5	8.1
Dow Chemical	12.3	14.9	6.1	12.1	15.6	16.5	6.8	12.3
DuPont	14.4	13.3	13.8	15.6	31.1	17.9	17.0	16.1
Freeport Sulphur	12.5	15.2	14.0	14.3	24.3	21.8	18.8	18.5
Monsanto Chemical	11.1	12.5	12.8	15.1	12.6	10.6	10.1	11.1
Texas Gulf Sulphur	13.5	15.8	25.1	56.0	37.5	30.2	38.6	39.6
Union Carbide and Carbon	13.0	14.3	17.0	23.1	21.0	N.A.	13.7	16.2
Containers								
American Can	11.9	11.4	4.9	11.6	9.6	7.1	3.4	5.5
Continental Can	7.4	6.2	5.2	10.2	9.3	5.4	2.9	4.6
Electrical Equipment								
General Electric	8.6	17.8	12.0	22.7	10.3	6.9	4.8	7.5
Minneapolis-Honeywell Regulator	19.3	21.4	17.5	17.4	15.4	11.2	11.1	10.3
Westinghouse Electric	7.2	9.6	2.6	13.0	7.9	6.2	2.3	5.4
Foods								
Beatrice Foods	8.5	7.9	17.7	13.6	3.0	2.2	3.1	2.5
Corn Products	9.6	10.5	12.7	9.7	18.0	12.0	10.3	6.4
General Foods	18.9	16.3	20.1	17.2	10.3	7.8	6.3	5.2
General Mills	12.2	9.3	9.5	15.3	5.2	4.1	2.3	2.8
National Dairy Products	11.5	11.2	19.8	16.4	3.8	2.8	3.4	2.5
Swift & Co.	4.4	7.3	6.1	9.8	1.3	1.7	1.2	1.1
House Furnishing Products								
Armstrong Cork	8.8	7.9	5.8	12.6	8.8	5.3	4.0	6.6
Simmons Co.	12.8	16.9	19.0	17.9	6.2	5.6	6.3	6.7
Machinery and Farm Equipment								
Deere & Co.	8.8	14.5	7.3	15.7	10.8	11.4	6.6	7.6
Ingersoll-Rand Co.	15.4	20.2	21.1	28.8	19.0	12.0	15.1	15.3
International Business Machines	16.1	16.4	22.6	24.3	23.0	15.6	15.7	17.3
International Harvester	2.3	8.7	5.3	11.8	3.7	8.4	4.6	5.8
National Cash Register	4.9	8.8	8.2	24.4	4.8	6.2	4.3	8.3
Metals								
International Nickel	16.9	15.2	11.4	14.6	29.1	20.2	22.3	19.8
Kennecott Copper	10.0	13.3	5.6	18.8	25.0	20.6	14.8	26.9
Motion Pictures								
Loew's, Inc.	8.6	9.3	12.7	2.9	8.4	9.7	10.8	2.5
Paper								
International Paper	3.3	10.5	16.5	19.7	4.0	7.5	10.8	10.5
Petroleum								
Phillips Petroleum	5.7	9.6	9.1	18.7	8.7	12.2	10.2	14.9
Standard Oil of California	3.1	5.3	10.3	19.9	10.0	14.5	17.9	21.9
Standard Oil of New Jersey	5.8	9.0	10.7	16.8	9.5	14.3	.1	.4
Texas Company	6.8	10.4	11.1	17.4	9.0	13.1	12.1	15.3
Retail Trade								
May Department Stores	9.7	8.9	18.4	14.1	4.2	3.4	5.7	4.8
Safeway Stores	12.2	8.3	15.8	12.2	1.6	1.0	1.3	.7
Sears Roebuck	14.1	10.5	26.3	24.5	4.6	5.1	6.2	6.0
Rubber								
Goodyear Tire & Rubber	8.2	9.7	11.9	11.5	4.9	3.8	5.8	3.4
Steel								
Bethlehem Steel Corp.	5.1	7.0	7.7	14.0	5.9	3.5	5.3	6.8
U. S. Steel	3.1	8.1	6.0	7.7	4.5	7.1	5.9	5.2
Textiles								
American Woolen	4.2	11.5	25.5	19.8	3.5	4.7	11.7	8.3
Industrial Rayon	6.4	10.7	32.6	28.0	11.0	12.0	22.5	22.9
Tobacco								
American Tobacco	12.1	10.9	12.4	13.5	10.0	7.0	8.4	9.9
Liggett & Myers Tobacco Co.	13.9	11.7	10.9	15.7	8.8	6.4	8.4	10.4

years compared with 11% in 1939. American Woolen Company, long handicapped by over-capacity in pre-war and able to earn only 4.2% on net worth in 1939, raised this ratio to 25.5% in 1946, followed by a dip to 19.8% in 1948. Adverse conditions in the current year have reduced the percentage further, while the company's net profit margins on sales have undoubtedly contracted from the 8.3% shown in 1948.

Two large concerns in the aircraft industry, Douglas Aircraft and United Aircraft, have demonstrated ability to operate profitably in a period when their industry was beset by many difficulties. In 1939, when war clouds were gathering, the Douglas concern earned 20.8% on net worth and 10.3% on sales. In 1941 when we got into the war, military orders soared on the company's books and though profit margins remained stable, swollen sales pushed the percentage of earnings on net worth up to 51%, mainly because excess profit taxes had not yet entered the picture.



Changing Character of Aircraft Orders

In postwar, mounting demand for commercial aircraft only moderately offset the abrupt elimination of military orders, creating a serious problem of earning an adequate return on largely expanded net worth. Thus the company was fortunate to earn as much as 3.1% on invested capital in 1946. The Defense Program, however, brought radically higher sales and improved margins in 1948, expanding the earnings-net worth ratio to 7.9%, a mark likely to be exceeded in the current year and possibly in 1950, to judge from interim results and reported backlog orders of more than $200 million. The experience of United Aircraft Corporation has followed a very similar pattern. The prosperity of both concerns, though, hinges on receipt of heavy military orders and should these decline later on, the problem of top heavy net worth may again be presented.

Inadequate steel supplies, work interruptions and heavy expenses in connection with improvement programs reduced profit margins of most automobile manufacturers in 1946, including both General Motors Corporation and Chrysler. This also applies to their ratio of earnings to net worth in that year. In studying these situations it should be realized that in the last decade the net worth of both of these competitors has more than doubled, indicating need for a corresponding increase in dollar earnings if ratios were to remain stable.

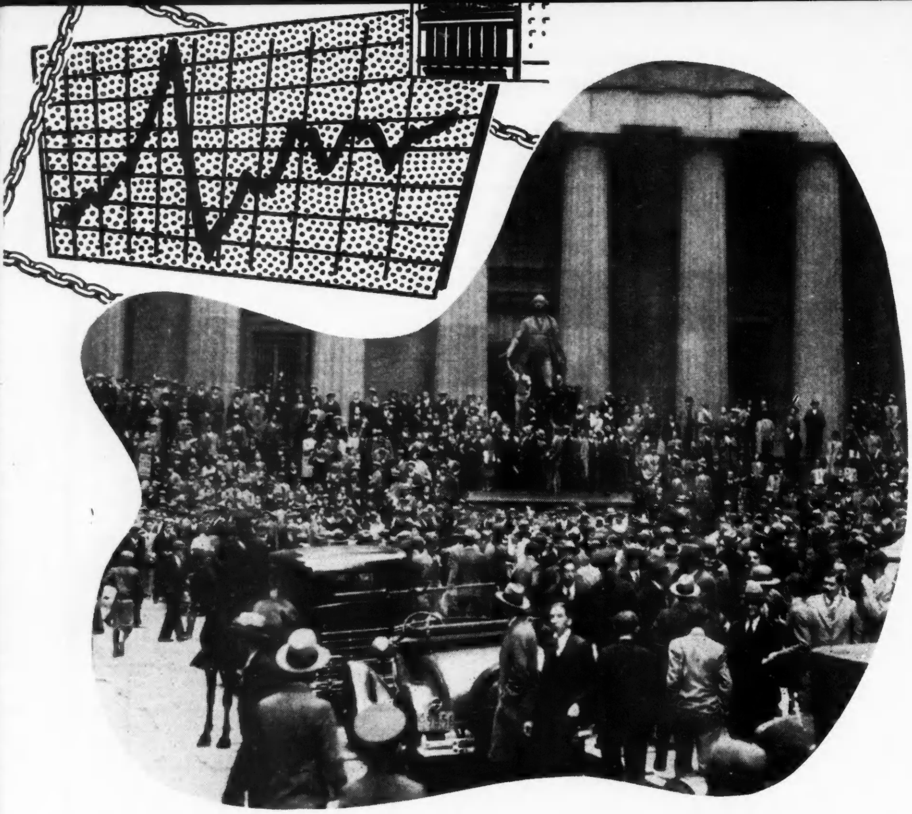
By 1948, a substantial volume gain percentagewise by General Motors lifted the net profit margin to 9.3% compared with 4.4% in 1946 and its return on net worth to 24.4% compared with 6.1%, the latter rising to the best level of any of the four-year periods on our table. Earnings of this concern in recent years have been substantially enhanced by subsidiaries making diesel engines, refrigerators and other diversified products, aside from normal profits on automobiles and parts.

This probably accounts for the fact that Chrysler Corporation, concentrating more on automotive business, earned only 5.6% on sales in 1948 though its return of 23.1% on net worth was closely comparable to that of its larger competitor. It is interesting to find that Chrysler last year earned approximately the same percentage on net worth as in 1939 and also in 1941, and that its net profit margins also have been relatively stable. In contrast, General Motors improved its earnings-net worth ratio compared with the two early periods despite large scale expansion in net assets. A 1948 net profit ratio to sales of 9.3% was less than the 13.3% achieved in 1939, but a substantial volume gain piled up net earnings. Efficiently managed as both General Motors and Chrysler are, their large capital investments were not quite as profitable as those of the general industry group of 28 concerns last year. Under 1948 conditions, the average return on net worth was 26%.

We have listed six important concerns representing various branches of the building industry. In booming 1948, every one of these concerns earned more on net worth than in any previous year shown on our table. It is significant, though, that earnings were expanded more by volume gains than by wider margins. Indeed, four out of the six concerns had smaller net profit margins on sales last year than in 1939, and the other two improved only moderately. Otis Elevator Company made the best showing in this group, earnings 24.1% on net worth and expanding its net profit margins to 13.1% compared with around 11% in two of the earlier periods. This attests to exceptionally efficient management.

U. S. Gypsum Co.

U. S. Gypsum Company's showing was commendable, with a return of 18.8% on net worth, though a net profit margin of 16.5% compared with 17% in 1939 when the company's stature was much smaller. Two leading cement companies, Lehigh Portland Cement Company and Lone Star Cement, earned 13.9% and 15.2% respectively on net worth, in both cases substantially more than in the former years indicated. Lone Star's 1948 margin on sales, 14.2%, was only slightly lower (*Please turn to page* 148)



1929 and TODAY

By JOHN D. C. WELDON

Outwardly, twenty years ago on Tuesday, October 29, 1929, Wall Street looked not much different than on any other crisp autumn day, except for the swelling street crowd. But inside the marble halls of the New York Stock Exchange, the greatest collapse of security values in all time went on.

The panic of 1929, having started on the preceding Black Thursday when 12.8 million shares were thrown on the market, struck its real stride this day. Some 16.4 million shares changed hands in frenzied trading and when the session ended, the Dow Jones Industrial Average stood at 230.07, down thirty points in one single day. Though stock prices had begun to recede ever since the Industrial Average reached its all-time high of 381.17 on September 3, 1929, this was by far the heaviest blow, virtually sweeping the public out of the market; but worse was yet to come though in less concentrated doses.

By July 8, 1932, the Industrial Average scraped bottom at 41.22, down 339.95 points or close to 90% from the September 1929 peak. In the course of this shake-out, paper values of some $50 billions were swept away, affecting an estimated 25 million people. Many thousands of small shoestring speculators, drawn into the bull market by its seemingly never-ending upward trend, lost their wads, and usually their shirts as well. Big speculators, and many investors, fared no better. They were wiped out on Black Thursday, or on the following Tuesday, or in the dark days of November 1929. And in the wake of the market collapse followed the worst depression in the country's history.

Today, twenty years later, the memory of collapse and depression has dimmed considerably but not entirely. A few months ago, when the recession seemed to be deepening, there was a good deal of anxiety among the pessimists whether we might be headed for a similar experience. After all, the inflationary postwar boom had been long and lusty; such periods don't last forever. And, it was thought, once adjustment begins, there is no telling how far it might go.

However, sober analysis of the conditions prevailing then and now leaves little room for fear of any recurrence. The market collapse of 1929 marked the end of a prolonged period of super-speculation which had become not only a danger to our own economy but to that of the entire world. The gambling fever had become terrific. Gains through speculation were widely regarded the surest short-cut to riches, and if there were any outcries against gambling and greed, these were almost inaudible.

Today there is wider realization that prosperity is based on the earnings and expenditures of the common man. Speculation is neither rampant nor facilitated, as it was in the late Twenties. Then, stock margins averaged a mere 10%, an enormous incentive to speculation. Today they are 50%, and they were much higher during the war and immediate postwar years. The market, in effect, is still largely on a cash basis. Brokers' loans which back in 1929 reached an all-time high of over $8 billion are currently only some $650 million or just about 8% of the 1929 peak. Doubtless more than four years of stringent restrictions on margin trading have been a weighty cause of distribution of securities, and of relatively high stability of holdings. More stocks today are in firm hands than probably at any time, and less in the hands of speculators; and it would take drastic reasons to shake these holdings.

No Exaggerated Valuation of Securities

Today, also, security prices are relatively low in relation to prospective or current earnings, whereas in 1929 they were based mainly on fantastic ideas of future profits and bore no relation whatever to earnings or earnings potentials, however exaggerated. Similarly, in 1929, the dividend yield on the Dow Jones Industrial Average was 3.33% whereas today it is 6½%, with the yield of many good stocks ranging up to 8% and 10%. Clearly there is no exaggeration in today's stock prices; instead a good

case for undervaluation can be made in many instances. What's more, market activity is moderate and has been so for many months. And the market itself, ever since the end of the bull market in 1946, has moved within a modest thirty-point range, hardly the kind of fluctuation that bespeaks speculative excesses.

As to the latter, they are effectively circumscribed by present-day regulations, non-existent in 1929. Market control and supervision is such that there can be no recurrence of the type of manipulation and excesses which contributed so greatly to the ultimate collapse in 1929. In contrast, conditions today tend to check rather than encourage the kind of speculative orgy which ended in disaster.

Causes of the Great Depression

This as far as technical market conditions are concerned. In drawing a parallel between 1929 and today, one must of course not ignore the fundamentals which have created these conditions. The superspeculation of the late Twenties and the subsequent price collapse which wiped out billions of dollars unquestionably intensified the ensuing depression but was hardly the sole or primary cause of it. The Great Depression might have been less onerous, the stock price collapse less ruinous, if holders and speculators of stock earlier in 1929 had paid more attention to basic factors, then beginning to show signs of deterioration. There were many weaknesses, but they were blithely overlooked.

To understand what happened, one must go back to the early Twenties. The business recovery of 1921-1923 is now recognized as the last *natural* recovery trend which, even as it was under way, was being undermined by the sharp increase in our protective tariffs in 1921 and 1922. Our recovery then was not assisted by improved conditions abroad. In 1920, the whole world went into crisis, as we did. The tide in this country turned without outside help but prolonged difficulties prevailed in other countries for several years after our revival, intensified by our tariff policy. Our export markets, especially in agricultural products, turned sour and early in 1924, recessive trends set in. It was then that first resort to easy money policy was had with the Government buying some $400 million Government securities (then a sizable amount), flooding the money market, depressing interest rates and generating an expansion of commercial bank credit of over $4 billion.

Heavy Foreign Lending

As a result, things perked up noticeably. Came the Dawes Plan which restored confidence of American investors in Europe. We began to lend enormous amounts to European countries, loans which we couldn't have made in such volume if it hadn't been for the great expansion in bank credit. Our exports soared but because of our tariff, Europe couldn't pay for them with their own goods; but we did lend the money with which to buy our goods. And the same flood of money generated a strong speculative move in our securities markets. After mid-1924, the stock market really began to rise.

Subsequently we went through five years of joyous prosperity, with rapidly expanding bank credit, soaring security prices and gigantic issues of new securities including many foreign loans. It was intensified by a renewed cheap money move in the summer of 1927, and again it worked. Stock prices went to fantastic heights as speculation rose to feverheat. New security issues which totalled $4.3 billion in 1923 rose to $10 billion in 1929. The quality of bank credit was impaired in the process. The indebtedness of foreigners was enormously increased and their annual debt service requirements grew by leaps and bounds. But our tariff remained as a barrier retarding or making impossible the debt payment by foreigners.

Then, late in 1929, came the great stock market smash, followed by an ominous decline in commodity prices. The stage was set for a severe reaction. We might have come through it in at least orderly fashion (however painful) but once again, early in 1930, the Federal Reserve Board resumed its cheap money policy, buying a large amount of Government securities, encouraging speculative optimism and the flotation of additional foreign loans. Thus the stock market rallied, temporarily, in early 1930, but significantly, the curve of industrial production, downtrending even before the 1929 market crash, did not rise. It sank steadily through 1930; industry could no longer respond to the financial stimulus. This time the injection of easy money failed and the market resumed its downtrend.

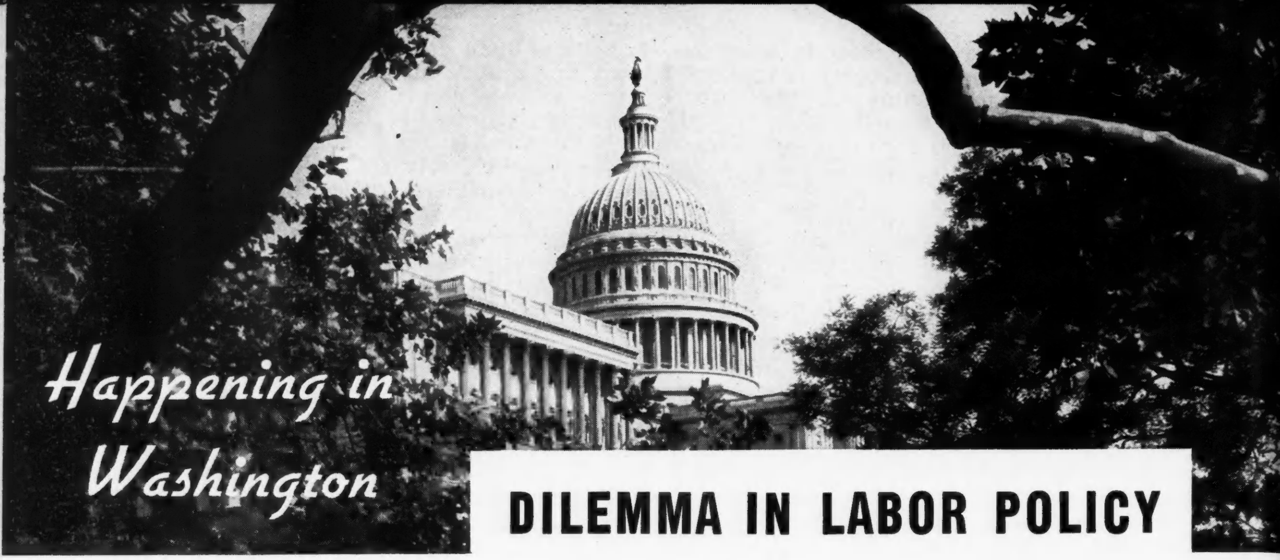
Collapse of International Credit

Finally, late in 1930, we again raised our tariffs to protect our tottering home markets. In reaction, the whole world began to do likewise and erect strangling trade barriers. World commerce fell to appallingly low levels and as it did, the burden of payment of foreign debts, which should have been carried primarily by the movement of goods, fell heavily on gold. Normally, when goods move freely, there is plenty of gold. But when not goods but only gold is free to move, debtor countries just haven't enough to make debt payments possible. In the ensuing collapse of international credit which moved fast in tragic 1931, country after country went down and finally Britain was forced off gold. There followed a great outcry against gold as the culprit though the fault was not with gold but with the strangling of the international movement of goods. In a vain effort to correct the situation, we finally went off gold, too.

This, very roughly, is the chain of events which brought about the Great Depression. The primary causes were deeply rooted in the economic unsettlement created by World War I and its consequences. But the situation was immensely aggravated by the policies pursued in trying to meet the new problems.

In the wake of World War II, new and graver problems have arisen, but conditions as well as policies are different, making it unlikely that there will be another 1929. As far as the stock market is concerned, basic technical factors alone, as previously contrasted, argue strongly against it. What about fundamentals?

Here, too, we find many conditions radically different. Back in 1929, our banking system was highly vulnerable. Today it is strong and liquid. Again we find ourselves in an era of easy money, have been, in fact, ever since this became official policy. But it is not working as it did in the past. While money is plentiful, it is being used with far greater caution than two decades ago. Bank deposits latterly have been shrinking largely because of the prolonged decline of business loans, a (*Please turn to page* 142)



DILEMMA IN LABOR POLICY

By E. K. T.

POLICY must soon be determined to govern government subsidies for construction and operation of merchant ships, if the United States shipping industry is to go ahead with long-delayed plans for which money is available. President Truman believes there should be no ceiling on the amount the Treasury should contribute toward the building and operation of craft, that the figure should be fixed in the light of existing conditions, the cost of creating vessels which are readily convertible to wartime use, and the fluctuations in foreign costs, since the purpose of subsidies is to match those costs to the operators. But congress has the hatchet out for the Maritime Commission, wants fixed limits.

WASHINGTON SEES:

The steel and coal strikes have combined to create the certainty that congress will attempt, a few months hence, to strengthen the government's hand to deal with stoppages threatening the national economy. The power of the President to step into such situations cries for clarification. Serious doubt exists in his mind whether he should continue to use the antiquated machinery he has relied upon, but the widespread industrial havoc caused by the walkouts is said to have changed his general attitude which was against federal intervention.

In the past, the government has ended national emergency strikes either by seisure or by United States court injunction. A World War I statute serves as the basis for seizures. The selective service act of world War II includes a limited power of seizures affecting only plants whose product is needed to supply the armed services. That could hardly be stretched to cover the steel-coal impasse; in fact many congressmen say it can't be used in a strike in any event, but only to force a manufacture to convert to war production if he seems reluctant to do so.

Foes of the injunctive provisions in the Taft-Hartley Act contended the President needs no specific grant, that the power is inherent in the Presidency. That concept has never been put to a test, however. And the machinery of the T-H Law is slow and cumbersome. All in all, the subject now is classed as one of uncertainty and vagueness, needing clarification.

But in appraising the outlook, careful observers will not overlook the fact that 1950 is an election year.

JUSTICE Department hopes to place a gag on business entities against which proceedings are brought and currently is backing efforts by Rep. Wright Patman to have the Treasury refuse federal income tax deductions to cover the cost of newspaper advertisements placed by A & P to present its side in the present antitrust case. The government lawyers claim this type of advertising is not intended for sale of commodities, and therefore isn't a "business expense." The Department piously declares: "We don't try our cases in the public print or on the public platform." Yet hardly a day passes when Attorney General McGrath or one of his aides fails to discuss the A & P case in a speech.

ECONOMY wave instituted by Defense Secretary Johnson, may be short-lived. Huge savings were to be effected by personnel reductions in the civilian ranks, but if President Truman permits Johnson to use the money congress appropriated to his offices, a sizeable bloc of the 135,000 civilians dropped only two months ago will be back on the payroll. To service the 58-group air force alone will require 20,000 additional civilians. Cutbacks for the army and navy were principally on paper, preliminary to execution. Now the reduction will be fractional, unless Mr. Truman steps in.

FOUR BILLION dollar federal tax proposal came to life after congress had adjourned, but there are few in Washington in a position to do anything about it who believe Mr. Truman revived it with any genuine belief that it can be brought about. Chairmen of tax-raising committees in both houses of congress, both of them democrats, were first to say an emphatic no, after the President had made his proposal.

As We Go To Press

Administration leaders have laid plans to make a frank bid for bloc political support when congress reconvenes in January, with attention directed first to consumer groups, and then to the Negro vote. Item 1 on the new agenda will be the oleo tax repeal bill, after which Capitol Hill will make another try at a Fair Employment Practices bill. By solving the problem of on-farm storage of support-price grain purchased by the Commodity Credit Corporation, the White House has carried out a campaign pledge, now feels assured the farm bloc is, at least, not displeased.

Gen. Omar Bradley, who won many strategic battles in World War II, has an administrative victory to his credit. The issue whether to establish a policy and appropriate large sums of money to re-arm Western Europe and other friendly nations was in a see-saw as adjournment day approached. The soft-spoken chairman of the Joint Chiefs of Staff appeared before the committee, delivered himself of the military reasons for passing the measure, then played his rtump card. He cited Russia's known progress in the field of atomic explosions and commented, almost casually, that in the event of a Red attack, the United States Capital might be the first target. In the spoken word, "Capital" and "Capitol" have identical sound. The senators snapped to attention, voted the appropriation.

The damage resulting from the strike of the bituminous coal miners and the steel workers already was recorded in the first two weeks of its existence. After that it was a matter of increasing degree. Without coal and steel, supplies of which were dwindling and spreading the period within which normalcy could be restored after settlement, numerous other industries already knew that curtailment was ahead, come what may.

Somewhat obscured in the welter of argument and discussion was John L. Lewis' first public, bold stroke for nationalization of the coal mines. If, said Lewis, the situation were not corrected before too long, the miners would be willing to "cooperate with the government" in working the mines, provided the government made a "bona fide" seizure of the properties and operated them separately. And, he added, "fact finding boards are out!"

The Administration counts the southern states lost to the democratic party in the sense of support in national elections and has set out to widen the breach by encouraging construction of public power plants in New England and adjoining states. Bait held out to that geographical area is the low schedule of rates which accrues from public power, which might serve to win back industry already lost to the southland or put brakes on the movement downward. First formal steps will be taken at a Boston conference of New England democrats, November 20-21.

There are no federally-constructed power plants within the six New England states. Whether related to that fact or not, rates are highest in that zone, and the Administration will seek to establish the connection between costs of power and loss of industries in recent years. For example: "If the cotton mills located in the south were in New England, they would have to pay 27 million dollars more a year for the electric power they use." Argument is made that water power potential in New England could be realized upon to bring the rates to a substantially lower level.

Union lobbyists are kicking themselves because they permitted their attention to be distracted long enough for congress to "put over" a ruling that corporate salaries of $75,000 or more no longer will be made a subject of publication. Explanation by the lawmakers was the need for cutting down expenses, but to the Machinists' Union "that excuse is so thin anyone can see through it." The union sees a more sinister reason: "Publication embarrassed some of the nation's biggest

executives. It also provided union members a measure against which to judge their efforts to add a few cents each year to their hourly wages."

In truth, the ruling was not at all sneaked over. Wisdom of publication has been a subject of serious debate in several recent sessions of congress; in fact it was gravely questioned 15 years ago when it began, with publication of corporate salaries of $15,000 or more -- raised in 1938 to include only those receiving salaries of $75,000 or in excess. Promoters welcomed it as a "sucker list" for philantropic appeals. But even "liberals" pointed out it was deceptive because it doesn't reflect income from dividends and other sources.

The fight still is raging over l'affaire Olds. The Administration adopted an unusually drastic political step in its unsuccessful attempt to have the senate confirm Chairman Leland Olds for reappointment to the Federal Power Commission, soliciting the support of state and local democratic organizations and asking that pressure be placed upon their senators. It backfired in senatorial resentment.

Olds had been depicted by his supporters as a thoroughgoing believer in the American way of life. That he had written articles for publication when a callow youth which, in the light of later reading tag him as a leftist, was claimed to be a subterfuge. But now the things that Olds stood for (which presumably were defeated by his rejection) may come about by direct action of the people, say the Americans for Democratic Action. And what do they add up to ? "The rejection of Leland Olds can well lead to the public ownership of all basic natural resources, including oil and gas. This is something which those who are after Leland Olds' scalp should soberly contemplate."

Real purpose of the congressional investigation into lobbying in Washington is not to spotlight activities of certain marked groups, although several will come in for close scrutiny, but to disclose the inadequacies of the present registration law. The Department of Justice has pointed out to house leaders that the statute doesn't hit the target at which it was aimed, and will introduce evidence to show loopholes have been fashioned out of a whole raft of ambiguities.

Justice Department hopes to require all trade associations to register as lobbyists, declare purposes, name names, and list salaries. These organizations escape under the present statute because their "principal" business is not influencing legislation. Effort was made to force the National Association of Manufacturers to register. NAM defended on the basis of the words "principal activity," and suit has been filed. The case probably will not reach trial soon; amendment of the law be debated in the meantime and ultimate action by congress will decide whether the case remains on the docket.

But there's still another reason: most costly lobby in Washington is the combined federal agencies and departments. The democratic majority has been concerned about that, has heard rumors the republicans will make a campaign issue out of it, and is determined to do some exploration in that field to head off a possible lethal attack. Among those familiar with government methods there is little hope that a practice so long observed and so hard to nail down will be stopped. But the democratic leadership by setting up an investigating committee can at least claim "good faith."

Little-noticed volume recently off the press of the Government Printing Office will gain prominence in the next session of congress, attain the status of a text-book on private enterprise vs. government operation. The senate-house joint committee on the economic report has prepared the material, gathered it in a pamphlet titled "Factors Affecting Volume and Stability of Private Investment." The joint committee has copies for distribution to inquiring parties, but it hasn't become a best seller as yet. It will bob up during economic hearings which are projected for 1950, plans for which still are nebulous.

A new type of debenture bonds soon will be placed on the market. Central Bank for Cooperatives will make a public offering, its first since receiving authorization in 1933. More than 1,600 farm cooperatives are using credit through the Bank for Cooperatives, now would like to retire all government capital in these banks, become the absolute owners.

photos by Wide World

. . . INDIA . . .

New Keystone In Our Asiatic Policy

By V. L. HOROTH

For the past three weeks America has been playing host to a distinguished visitor, Pandit Jawaharlal Nehru, Prime Minister of India, a country with a population more than twice that of ours. Pandit Nehru's star has been rising while that of Chiang Kai-Shek has been setting. Not only has he been one of the leading architects of modern India, but it is through his influence and ability that India is emerging as the leader of Asia's non-communist countries. The main reason for his visit here is to get acquainted with America, and to learn something about our spirit and intentions, as well as about our power and the strength of our economy.

For America, his visit should provide the opportunity to revise some of our romantic conceptions about Asia, and India in particular, as the land of bejeweled maharajas, famines and outlandish religions. It is important for us to learn that India is a country in desperate need of industrial expansion and of modernization of her agricultural practices; that she is a country with huge resources — both natural and human—and that she should be helped in their development so that she can contribute her proper share to the world's well-being and to the international exchange of goods.

It is not a mere coincidence that Prime Minister Nehru is here at the invitation of our State Department at the time when the Chinese communists are getting ready, after the fall of Canton, for the final onslaught on Nationalist China. It is not a coincidence that he is here at a time when India's economy is in serious distress because of inflation, inability to raise sufficient food and lack of capital. Nor is it a coincidence, one may add, that the discussions of the President's Point Four Program for undeveloped countries and of the potentialities of India as a market for our exports have assumed a new meaning and that the dispatches from London mention, all of a sudden, the necessity of "doing something" about the scaling down of India's sterling balances.

The point is that all of these developments fit together. They can all be viewed as a "groping" for a new policy in Southeastern Asia now that the collapse of Nationalist China has showed up the weaknesses of the old. More than that, our objective is to develop a system of defenses, to throw up a barrier that will prevent the spread of communism from China and partially infected Indo-China.

High Stakes

The stakes are high: Burma, Malaya, Siam, Indonesia, the Philippines, and India herself, all countries which because of their low standard of living are especially vulnerable to communism, and which are veritable "treasure chests" of such natural resources as rubber, tin, and petroleum which would greatly enhance the industrial and military potential of the Soviet-dominated orbit. It is true that the bolstering of Southeastern Asia is likely to be less costly than that of Western Europe with its high standard of living. But it will also be riskier, for, as the London Economist recently wrote, "Any change for the betterment in the Asiatic peasant's circumstances seems to wake him up out of his fatalistic lethargy only to render him more receptive to communist whisperings that he ought to be getting more."

Because of their past history, their social and economic conditions, and firm steps taken, communism has had up, to now, little positive appeal in India and Japan. Both countries could, therefore, serve as natural bulwarks against communism. Japan is ideally

INDIA: Trade, Prices, Production and Inflation

	India: General Trade Imports	Exports	Balance	U. S. Trade with India Exports	Imports	Balance	Wholesale Prices	Industrial Shares	Steel Production	Gold & For. Ex. India	Pakistan
	(in 000,000 rupees)			(in millions of $)			(1937=100)		(000 tons)	(000,000 $)	
1937	1,804	1,913	+109	43.7	95.9	— 52.2	100	100	936	590	......
1938	1,580	1,706	+126	33.4	58.4	— 25.0	90	83	984	485	......
1946	3,595	3,210	—385	170.8(a)	237.7	— 66.9	252	242	1,272	5,179(b)	......
1947	4,569	4,083	—486	401.1	253.8	+147.3	278	183	1,224	4,864	559(c)
1948	5,188	4,228	—960	298.1	265.3	+ 32.8	344	151	1,224	3,354	798
1948 mo. av.	432	352	— 80	24.8	22.1	+ 2.7			102		
1949											
Jan.	550	351	—199	31.4	23.2	+ 8.2	352	136	99	3,238	811
Feb.	521	358	—163	24.5	22.2	+ 2.3	346	135	99	3,168	798
March	551	322	—229	32.3	20.7	+ 11.6	347	131	128	3,101	781
April	517	345	—172	30.6	24.1	+ 6.5	352	122	126	2,971	810
May	641	301	—340	28.8	19.0	+ 9.8	352	120	123	2,864	788
June	606	296	—310	29.3	18.9	+ 10.4	354	111	96	2,750	776
July	569	311	—258	19.3	13.0	+ 6.3	357	114	......	2,650	736
Aug.				13.5	16.0	— 2.5	365	124	......	2,603	724

(a)—Cash exports only (ex lend-lease).
(b)—5,315 million dollars at the end of 1945.
(c)—Aug. 1948, when the first transfer of the assets from the Indian Reserve Bank to the Pakistan State Bank took place.

located as the northern anchor of the projected western defenses. However, her imperialism and militarism are recent, and too great an eagerness to build her up may be not only dangerous—if no restraints are imposed—but also quite unpopular with those peoples whom Japan controlled and brutalized during the war. On the other hand, India, the strategic position of which is equally ideal to serve as the southern anchor of the Western World's defenses, has been catapulted, largely through Premier Nehru's influence, into the leadership of awakening Asia.

Can India be persuaded through Nehru to give unreserved cooperation in a possible conflict of the West with the Soviet Union and in checking the spread of communism in Southeastern Asia? Pandit Nehru is no friend of communism in his own country, and the ruthlessness with which the Indian Government has been fighting the communists is as good proof of it as any. But beyond this, India, in the words of Mr. Nehru, "has no intention to commit herself to anybody at any time."

Nehru's Attitude

The answer to why Mr. Nehru refuses to let himself be maneuvered into a position of unreserved cooperation with the West must be sought elsewhere. In the first place, he is a philosopher and a convinced pacifist; no greater contrast can be imagined than that between him and that other great Asiatic leader, Chiang Kai-shek. Second, Pandit Nehru is a fervent Asian nationalist who quite naturally during his jail terms must have formed a negative opinion of Western colonialism and British imperialism, and a positive opinion about "the new world" that the Russians were building. Since then, however, his sentiments are known to have changed. Much of his former bitterness against the British is gone. At any rate, he condemned the subversive tactics of India's Reds.

Third, Nehru is a convinced socialist, and as the leader of the left wing of the Congress Party, he once pressed for the early nationalization of all important industries. However, in this respect he must have modified his views, because in a recent interview he declared that the earlier nationalization plans are being completely revised and put off for at least a decade for the simple reason that India has no money to reimburse the owners. One reason why Nehru and many other leading Indians have favored nationalization has been the unusual degree of concentration—when compared with this country and Europe—of economic power in India. The control over banking, insurance, and practically all the big industries is limited to a few family groups—as in Japan. Free enterprise, insofar as it has existed in India, has been limited to these groups.

The winning of Prime Minister Nehru for the full cooperation with the West presupposes the elimination of everything that smacks of the old colonialism and imperialism. The re-establishment of the prewar relationships between the countries of Southeastern Asia and the Western European countries is out. Moreover India, like any new country, is perhaps unduly sensitive about her prerogatives and sovereignty. This would exclude any aid that would impose too much supervision or lead to "exploitation."

The same old problem that we faced in China, that of spending large amounts of money without having much control over how it is spent, is going to be present also in Southeastern Asia. Because of this, the loans by the International Bank, which are given on a straight bank loan basis, and the outright gifts and the assistance visualized under the Point Four Program are likely to prove the most practical way of meeting the situation.

India's Deteriorating Economy

Fortunately the West is in a position where it can ask, in turn, for some concessions to its views. This because India needs help, and needs it soon because of her rapidly deteriorating economic situation. Contrary to all expectations, India has consolidated herself politically in a manner that commands admiration. War with Pakistan has been averted, and there was no breakdown of authority after the British left. The problem of incorporating some 500 princely states was neatly solved.

On the other hand, no one expected in the summer of 1947 that the partition would be followed by busi-

ness stagnation and economic deterioration. As a matter of fact, such gloomy predictions were at that time reserved for Pakistan, the economy of which—to confound the political economists more—has shown an unexpected soundness and vitality. Generally speaking, India's economic troubles have been due to (1) inflation, (2) large balance of payment deficits, and (3) business stagnation.

The partition of the old "British India" into the Indian Union and Pakistan was followed by a relaxation of controls which up to that time had held the inflationary forces in check. The disorganization of production, transportation bottlenecks, and the dislocation of trade likewise added to the inflationary pressure, and to top it all, there have been budgetary deficits owing to heavy military and capital expenditures. Within one year following the partition, prices rose from a level 2½ times higher than prewar to a level 3½ higher. This took place when buyers' markets were beginning to return all over the world,

The rise of prices has been followed by a rise in wages and costs with the result that the greatest single advantage which Indian producers used to have over their competitors—cheap labor—has been lost. As a matter of fact, being ignorant and inefficient, Indian labor has become too expensive, particularly as it has become armed with a vote and has the socialist Government's support. Hence the dire need for modernization of Indian mills and the raising of labor productivity.

As a result of the sharp rise in production costs, many Indian export products—burlap in particular—became unsaleable abroad at a profit. This development had disastrous consequences in two directions. In the first place, it led to a decline in production of such products as cotton, cement, burlap, sugar, and steel. Second, it lowered the earnings of foreign exchange at a time when the Indian Government had to make abroad large purchases of foodstuffs in order to relieve the inflationary pressures at home. In this connection it may be added that India's food production has failed to keep up with the increase of population and its purchasing power. The food deficit has become worse since the separation of Pakistan.

A Vicious Circle

The Indian economy was thus caught in a vicious circle. In foreign trade, the country has been piling up heavy deficits. During the first seven months of this year, the excess of imports over exports reached the fantastic annual rate of nearly 3 billion rupees, or almost one billion dollars. Before the war, India used to have a trade deficit of 100 to 150 million rupees. Yet the huge imports have done relatively little in averting the price rise. To cover the deficit, India has been drawing heavily an its wartime accumulated balances. As will be seen from the appended table, these resources dwindled from the equivalent of $5.3 billion at the end of 1945 to less than $2.6 billion at the end of August. Had things continued at this rate, there would have been no problem of blocked sterling balances as regards India in a year or two.

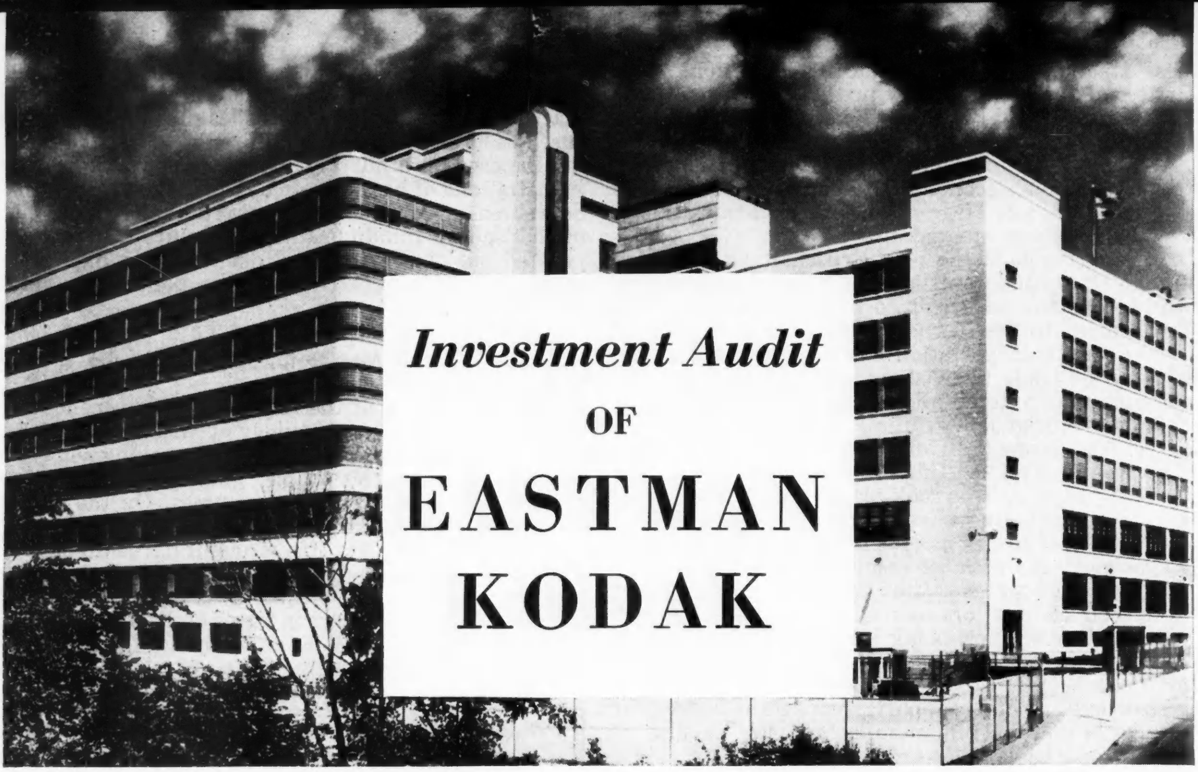
The general unsoundness of the Indian economy has been reflected in the continued fall of stock prices (see table), as well as in the lack of confidence on the part of the private entrepreneur to put up new capital. The Princes, formerly an important source of capital, are now, as the Economist points out, either pensioners or hoarders. The tax-gathering methods and the policy of nationalization by left-wing Congress leaders have also scared off potential investors. A good deal of responsibility for all this is placed on Mr. Nehru and his colleagues. They are accused of having failed to stabilize the budget, of having imposed prohibitively high taxes on business and industry, and of having raised industrial wages without increasing worker efficiency at the same time. One of the leading Indian businessmen quite frankly has pointed out that "economic deterioration bids fair to undermine a great deal of the political success achieved thus far."

Devaluation May Help, But No Panacea

The devaluation of the rupee by 30.5 per cent will not be a panacea; more likely it will merely slow down the economic deterioration by making some of the export industries viable, and by reducing the drain on foreign exchange resources. On the other hand, the decision of the Government of Pakistan not to devalue its currency has wrought hardship on India's largest foreign exchange earning industry, the burlap industry. The Calcutta mills will now be paying some 40 per cent more in terms of dollars for their raw material, jute; on the other hand, they will be getting 30 per cent less for (*Please turn to page* 144)

Principal Commodities Exchanged Between the United States and India & Pakistan in 1948
(figures in millions of dollars)

	1948
United States Imports from India	
Jute and burlap	$152.1
Shellac and other resins	18.7
Tea	14.8
Cashew nuts; other nuts and prep.	12.7
Mica and other non-metallic minerals	13.1
Spices	8.3
Hides and skins	11.2
Wool and manufactures	9.4
Cotton and semi-manufactures	6.3
Manganese and other alloys	5.7
Leather	4.0
Drugs, herbs, leaves, roots, etc.	2.7
Hair	.8
All other imports	7.9
Total	$267.7
United States Imports from Pakistan	
Jute and burlap	$ 10.8
Wool, raw	6.2
Hair and manufactures	1.0
Hides and skins	3.6
Furs and manufactures	1.1
All other imports	2.2
Total	$ 24.9
United States Exports to India	
Industrial machinery	$ 59.8
Automobiles and other vehicles	39.8
Grains and preparations	63.5
Petroleum and products	20.6
Steel and iron manufactures	14.9
Non-ferrous metals, alloys, etc.	9.1
Dyestuffs	17.3
Chemicals	19.8
Textiles, raw fibers and manufactures	14.5
All other exports	38.2
Total	$297.5
United States Exports to Pakistan	
Industrial machinery	3.6
Automobiles and other vehicles	1.6
Grains and preparations	2.5
Textiles	3.1
Chemicals and dyestuffs	1.1
Steel products, nonferrous metals, etc.	1.5
Coal and petroleum and byproducts	1.2
All other exports	2.1
Total	$ 16.7



Investment Audit OF EASTMAN KODAK

By C. F. MORGAN

Speaking of pictures, the Eastman Kodak management has developed an unusually attractive one for its stockholders—and one that is generally appreciated by investors judging by market behavior of the stock in recent years. Contrary to experience of shares representing industries dependent on consumer income and supposedly catering to satisfaction of luxury wants, Kodak has declined comparatively little from its 1946 peak. Moreover, this confident attitude toward the company's prospects has been justified, for sales and earnings have continued to mount to new high records until this year and dividends have increased conservatively.

In appraising the outlook and growth potentialities of Eastman Kodak, the first factor to bring clearly into focus is that products are well diversified and that sales by no means are dependent on amateur photography. As a matter of fact, commercial and professional photographic requirements have become increasingly important as a source of revenue. This division which produces films, plates, papers, etc., for commercial photographers, for the printing and publishing business and for record keeping, accounted for 25 per cent of sales last year. As demand for business records increases in connection with pension systems and similar employment data, it seems apparent that industry will turn to microfilm devices in the interest of completeness and accuracy.

Amateur photography, of course, remains a major contributor to sales, accounting for 29 per cent of 1948 volume. Sales of films, cameras and accessories were stimulated especially last year because the business still was feeling the effects of deferred consumer demand that had been accumulating during the wartime shortage. Amateur motion pictures have increased immensely in popularity in the last decade and, with the sharp rise in national income, demand had exceeded supply for several years—to such an extent that used equipment brought fancy prices just as in the case of used motor cars.

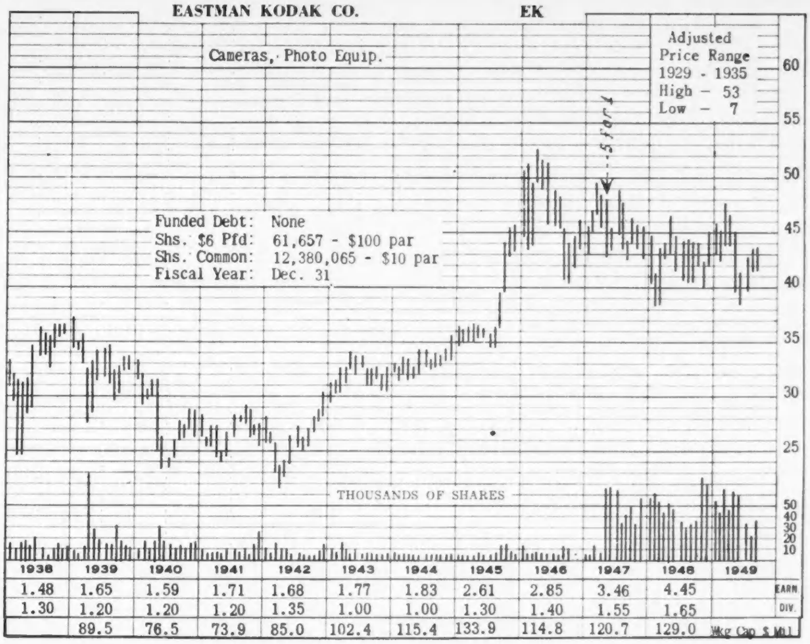
Moreover, in the case of films for motion picture making, supplies were scarce until about a year ago. Until the beginning of this year, producers of photographic materials and accessories had enjoyed a strong sellers' market. Urgency of demand for the wide variety of products made by Kodak is reflected in growth in sales to more than $435 million last year — a figure more than three times as large as ten years earlier.

Growing Diversification Important Factor

The fact that Eastman has extended its activities into textiles, plastics, vitamins and chemicals is not generally taken into consideration in considering the company's position in industry. Sales of cellulose products, including estron yarn and staple fiber, acetate sheeting, plastic molding compounds, etc., accounted for 23 per cent of 1948 volume, or approximately $100 million, while chemicals contributed an additional $2.5 million, or about 6 per cent. Remaining sources of income include professional motion pictures, which have averaged about 9 per cent of sales in recent years; special military apparatus and equipment, accounting for about the same proportion of sales as chemicals; and miscellaneous items. In the last named category are vitamin concentrates and high vacuum equipment added in 1948, for which management holds high hopes.

It may be seen then that Kodak's sales are dependent only partially on requirements of amateur photographers. Moreover, it may be unwise to overemphasize the extent of luxury demand in this category, for amateur motion picture photography has become

such a popular hobby that it has taken on the characteristics of a habit. A great many enthusiasts would sacrifice other wants before depriving themselves of the pleasure and excitement of picture taking. Management has been surprised, in fact, that sales of color films have been so well maintained this year in the face of indications of reduced employment and national income. Experience suggests that sales of amateur photographic supplies and equipment have been spurred by population growth. Desire for pictures of the "new baby" is a strong inducement for home photography. Hence it is not surprising that the uptrend in film sales has followed a sharply rising curve in population.



Taking into consideration the strongly entrenched position of amateur photography and prospects for growth in industrial requirements, on which comments will be made later, it is not so surprising that Kodak shares have maintained their impressive position. The stock, around 43, is selling on an exceptionally high price-earnings basis and on an abnormally low yield at a time when good quality stocks are to be had at five or six times earnings and at yields of 6 or 7 per cent. Kodak shares have been appraised recently at about twelve times estimated 1949 earnings of perhaps $3.50 a share and the yield on an indicated $1.70 dividend is only about 4 per cent. Nevertheless, this return compares favorably with experience of the past, for the company has a record of extreme conservatism in this respect. A more liberal rate would appear justified if profit margins are maintained and earnings hold around the 1949 rate when economic conditions return to normal.

Factors Bearing on Earning Power

Before examining in greater detail some of Kodak's pertinent financial statistics, which have been arranged in accompanying tabulations for comparative purposes, it may be well to comment on other factors having bearing on earning power and potential growth. These include: (1) Growing popularity of amateur photography in line with rising income, increased time for recreation and exceptionally high birth rate experienced in recent years; (2) steadily mounting need for accurate records required by Government agencies which may be advantageously filed on microfilm for future reference; (3) management's enviable record in research and development of new products to broaden its field of activity; (4) prospect for tremendous growth in film requirements in connection with expansion of television, which conceivably may use far a greater volume than the motion picture industry uses in supplying present theatre needs; and (5) promise of relief from wartime excise taxes, which would amount to a substantial price reduction on photographic equipment.

One of the most interesting developments of recent years is Kodak's decision to enter the field of colored film for professional motion picture producers. In taking this step in competition with Technicolor, management appears to have satisfied itself that its product will be favorably received and will prove equally satisfactory or superior to those of competitors. The Hollywood producers presumably would produce a much greater proportion of films in color if costs were more reasonable. Eastman hopes to be able to place colored pictures within the budgets of almost any good picture. Its process is regarded as more economical in that it reduces time required for processing films. Success in this venture might not add greatly to the amount of film used by the motion picture industry, but would tend to increase sales volume in this division through use of more expensive materials.

Comparative Balance Sheet Items

	December 26, 1940	1948 (000 omitted)	Change
ASSETS			
Cash	$ 30,548	$ 29,598	—$ 950
Marketable Securities	18,262	48,095	+ 29,833
Receivables, Net	13,053	44,543	+ 31,490
Inventories	39,027	102,099	+ 63,072
Total Current Assets	100,890	224,335	+ 123,445
Gross Property Account	156,551	313,751	+ 157,200
Less Depreciation	70,015	142,525	+ 72,510
Net Property	86,536	171,226	+ 84,690
Other Assets	26,326	16,071	— 10,255
Total Assets	$213,752	$411,632	+$197,880
LIABILITIES			
Accounts Payable	$ 12,789	$ 46,789	+$ 34,000
Accrued Taxes	11,579	48,488	+ 36,909
Total Current Liabilities	24,368	95,277	+ 70,909
Reserves	26,207	16,964	— 9,243
Preferred Stock	6,165	6,165	....
Common Stock	99,041	129,991	+ 30,950
Surplus	57,971	163,235	+ 105,264
Total Liabilities	$213,752	$411,632	+$197,880
Working Capital	$ 76,522	$129,058	+$ 52,536
Current Ratio	4.1	2.3	— 1.8

Potentialities of film requirements in television barely have been scratched. Thus far few programs have been prepared for general distribution throughout the country on film—that is, by means of the kinoscope. Greater use of this method of gaining simultaneous presentation of programs in various unconnected localities is anticipated in the next year or two because completion of a nationwide system of television stations apparently will not be practicable for several years. Considering total possible time that may become available for telecasting filmed shows, it is not difficult to envision a volume of film requirements in television far exceeding that now consumed in Hollywood.

New Plastic Printing Plate

Significant developments in improving printing and communications facilities have been made. Kodak's laboratories have produced a plastic printing plate, which promises to be extremely useful in offset printing—a process that has grown rapidly because of the need for counteracting rising labor costs in the printing industry. Progress in developing emulsions more sensitive than ever before obtained paves the way for increased use of photography in industrial research. A new type of equipment used in microfilming records has been developed which has met with an encouraging reception in industry. It has especial appeal for banks, retail stores and other firms which make a practice of keeping records of checks, sales slips and small reference cards photographed on one side only. Department stores generally are adopting the Recordak method of keeping sales data, not only economizing in space and increasing efficiency but also providing a more satisfactory record for charge customers. Sales slips are included with monthly statements, and it has been found that this procedure avoids numerous controversies over statements.

Outstanding progress in high-temperature photography—key to good performance in television—has been achieved through use of heated chemicals. Rapid-processing made possible in this manner led to development of a fast-as-light method of communication known as "ultrafax." This modern system of sending and receiving messages by means of television and film was perfected by Kodak in cooperation with Radio Corporation of America and its subsidiary, National Broadcasting Company. In time this development may permit simultaneous publication of a newspaper in various metropolitan areas—as, for instance, in New York, Chicago and San Francisco. Experiments along this line have suggested interesting possibilities even though the project scarcely could prove a source of valuable income for Eastman.

Intimations of tax relief next year through repeal of excise levies on so-called luxuries point to the prospect of larger sales volume. Importance of this factor may be more readily appreciated when it is considered that the Federal tax is 25 per cent on most mechanical goods and 15 per cent on sensitized goods. Taxes collected by the company for the Government approximated $25 million last year and, judged by sales trends, may not be much smaller for 1949. The company has been negotiating, but thus far without success, for excess-profits tax relief under Section 722 of the Internal Revenue Code dealing with so-called hardship cases. The step was taken in behalf of the Tennessee Eastman Corporation for 1941-1945, when tax rates were based on a low pre-war average earnings base. Approval of the application could mean substantial benefits.

Operating Margins and Earnings

In studying the company's financial statistics, a feature that stands out prominently is the high ratio of operating income to sales. The margin has averaged better than 20 per cent in the last decade, reaching 28.6 per cent in 1942. Volume of business has recorded a consistent uptrend with sales this year projected at about $425 million, or approximately double 1942 total. It is interesting to observe that earnings after taxes have approximated about $1 a share on present common capitalization for each $100 million of net sales. As an example, for 1948 net profit worked out at $4.45 a common share on $435 million of business, while in 1941 on a volume of $182 million earnings came to $1.71 a share and in 1938 net profit amounted to $1.48 a share when sales slightly exceeded $128 million. There is no particular significance in this comparison unless it indicates a measure of consistency in carrying gross income down to net.

Another striking aspect is the comparatively low depreciation figure. Man- (*Please turn to page* 144)

Long Term Operating and Earnings Record

	Total Sales —Millions—	Operating Income —Millions—	Operating Margin %	Net Income Millions	Net Profit Margin %	Net Per Share	Dividends Per Share	Price Range
1949 (1st half)*	$190.0	$39.8	20.9%	$21.3	11.2%	$1.63	$1.70 a	47⅝-38⅜ b
1948	435.3	101.1	23.2	55.4	12.7	4.45	1.60	46⅜-38⅛
1947	351.7	78.4	19.0	43.2	12.2	3.46	1.55	49¼-42½
1946	274.7	59.4	18.2	35.6	13.0	2.85	1.40	53⅝-40⅛
1945	301.5	72.5	19.8	32.7	10.9	2.61	1.30	45¾-34
1944	303.6	84.1	23.3	23.0	7.6	1.83	1.00	35⅝-31⅜
1943	269.0	81.0	25.0	22.2	8.3	1.77	1.00	34 -29¼
1942	219.7	73.6	28.6	21.1	9.6	1.68	1.35	30¼-21⅝
1941	181.8	60.4	28.4	21.5	11.9	1.71	1.20	29⅛-24
1940	130.8	36.6	22.0	20.0	15.3	1.59	1.20	33⅛-23⅜
1939	123.8	32.3	20.5	20.8	16.8	1.65	1.20	37⅛-27⅝
10 Year Average, 1939-48	$259.1	$67.9	22.8%	$29.5	11.8%	$2.36	$1.28	53⅝-21⅝

*—24 weeks, June 12, 1949.

(a)—Paid so far in 1949, plus 5% Stock Dividend.

(b)—1949, to date.

Four Specialists IN Good Position

SELECTED BY OUR STAFF

Cross currents in this year of uncertainties have affected large industrial groups in various manner, creating common problems or opportunities for most of their components. It happens, though, that there are some concerns with operations so highly specialized that their progress has followed rather clearly marked individual patterns. We accordingly have selected four enterprises in this category that appear to be holding their own or forging ahead notably in interesting special fields.

The mere circumstance that the firms under discussion have established a place for themselves in the economy through the exploitation of rather unusual markets attests to commendable ingenuity by their managements. Development of patented ideas has been responsible for vigorous growth by representatives of virtually every industry, but the concerns chosen for our study appear to have strengthened their competitive positions significantly by emphasis on long experience and reputation for products with paramount or general appeal.

Technical superiority gained over a long period of years or the introduction of more recent novel products of unusual utility has accounted largely for their success. There is no little "romance" in the way these businesses have attained substantial stature and entrenched themselves to a point where potential competition has been weakened. But from a more practical viewpoint to the investor, the clear-cut dynamic character of their policies, together with the imaginative qualities so essential under Free Enterprise, count heavily. These fundamentals foreshadow well sustained further progress as the nation grows.

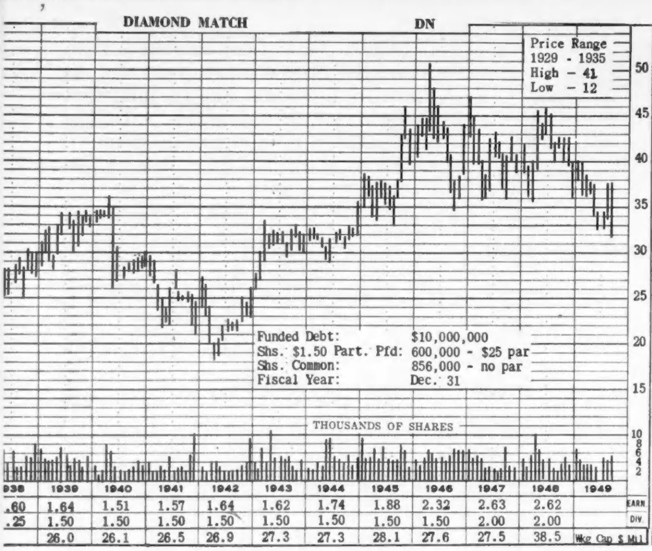
Paper drinking cups and food containers for several decades past have steadily encroached on markets traditionally dominated by glass and chinaware. Ingenious methods of manufacture originated by Dixie Cup Company, together with clever designing, have enabled this concern to operate with unusually stable earnings and to establish new records in postwar. An unbroken dividend record since 1929 reflects efficient management. Hence in a unique field this enterprise is interesting to examine.

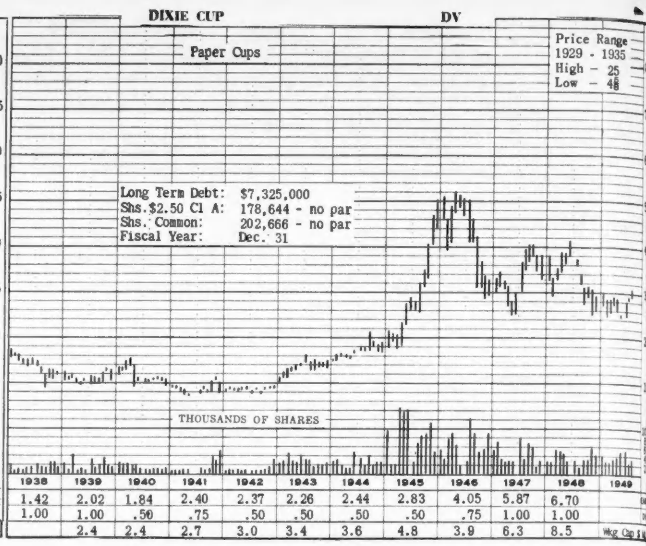
Production of heavy type steam turbines and electric generators in demand by utilities, industries and the Government require highly specialized engineering talent. In this respect Elliott Company has won an outstanding reputation. Though the business is sensitive to cyclical influences, strong finances have supported dividend stability for a fourty-four year period. This emphasis the advantage of a strongly entrenched position in what might be termed an industry within an industry.

Automatic regulation of heat has marked the amazing progress of technology in recent decades. One specialist in this field, Minneapolis-Honeywell Regulator Company, has established a growth record that lends unusual confidence in its operations. Excellent cost controls have enabled the company to show a profit in every year since 1929, despite variations in annual sales. This indicates additionally potential benefits derived from production of specialized devices with broadly expanding market potentials. Automatic heat controls, when first introduced many years ago, were a readily patentable novelty, and year to year improvements have continued to fortify their competitive position. Their market potentials have been substantially enhanced by the advent of oil and gas burning heaters, as well as by the development of air-conditioning. Additionally, their cost-saving feature expands the industrial demand for them, and their multiple use in office buildings and apartment houses tends to increase unit shipments.

Consumption of matches, because of their expendable characteristics, assures such consistent demand in good times and bad, that their production has stimulated considerable competition. Despite this, however, combined manufacturing efficiency and conservative pricing policies have consistently placed Diamond Match Company in a dominating position. By broadly diversified production of many other useful items besides matches derived from wood, this concern has not only utilized its vast holdings of timber but stimulated its own growth potentials. This large scale adaption of a single raw material to numerous end products has largely accounted for the company's excellent record. Despite the diversified output, though, the character of all items is such that they permit distribution through the same outlets. The company's long record of stable earnings and uninterrupted dividends extends back to 1882, speaking for itself.

On following pages we present statistical data and brief comments on each of the four concerns we have mentioned. For timing of potential investments in these companies, we suggest that readers follow the advice of A. T. Miller appearing regularly in each issue of the Magazine.





DIAMOND MATCH COMPANY

BUSINESS: The leading factor in the match industry, with operations benefitted by large scale integration and supplementary sales of lumber, chemicals, and a long list of products made from wood or pulp. Plants are strategically located from coast to coast, as are the company's lumber yards and branch offices.

OUTLOOK: Broadly speaking, demand for matches is so stable that changes in economic conditions affect the operations of this concern less than growth in population, a factor that points to well maintained volume expansion in the long range. Match prices at all times are so moderate that the company can constructivey raise wholesale quotations if necessary without detriment to demand. This permits adequate margins as a rule, especially as the company's big turnover substantially offsets competitive influences. Increased promotional activities of numerous manufacturers should continue to swell sales of book matches bearing advertising imprints, especially since consumption of tobacco is trending upwards to stimulate their use. The company's broad string of sales offices also serve to expand sales of such popular priced items as toothpicks, clothespins and pulp products such as toilet tissues, napkins, etc. The prospect for stable earnings is further enhanced by a sizable investment portfolio, income from which is now comfortable. It is not generally realized that match sales account for only about a third of total volume, activities in lumber, wooden products and building materials representing by far the larger portion. Current conditions favor well sustained demand for all these items. Net earnings were $1.43 per share in the first half year, and indicated full year net is around $3.50 a share.

FINANCES: At the end of 1948, current assets of $46 million included $7.4 million cash and marketable securities and compared with current liabilities of only $7.5 million, indicating an unusually sound financial status.

MARKET ACTION: Recent price—33 compares with a 1949 range of high—40, low—31⅝. In 1946 the shares sold as high as 50½. The current yield is 6%.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	1940	December 31, 1948 (ooo omitted)	Change
Cash	$ 2,167	$ 3,175	+$ 1,008
Marketable Securities	6,832	4,275	— 2,557
Receivables, Net	4,541	7,469	+ 2,928
Inventories	14,465	31,155	+ 16,690
TOTAL CURRENT ASSETS	28,005	46,074	+ 18,069
Plant and Equipment	4,206	20,712	+ 16,506
Less Depreciation	2,759	8,258	+ 5,499
Net Property	1,447	12,454	+ 11,007
Other Assets	5,310	8,532	+ 3,222
TOTAL ASSETS	$34,762	$67,060	+$32,298
LIABILITIES			
Accounts Payable	$ 306	$ 1,616	+$ 1,310
Accruals	450	918	+ 468
Income Tax Reserve	1,075	4,987	+ 3,912
TOTAL CURRENT LIABILITIES	1,831	7,521	+ 5,690
Reserves	3,160	7,340	+ 4,180
Long Term Debt	....	10,000	+ 10,000
Preferred Stock	15,000	15,000	....
Common Stock	11,337	19,858	+ 8,521
Surplus	3,434	7,341	+ 3,907
TOTAL LIABILITIES	$34,762	$67,060	+$32,298
WORKING CAPITAL	$26,174	$38,553	+$12,379
CURRENT RATIO	14.4	6.1	— 8.3

DIXIE CUP COMPANY

BUSINESS: Company is a leading manufacturer of paper cups and food containers. Its trade names "Dixie" and "Vortex" have become widely known. Plants are operated in four locations in the United States and one in Canada. Additionally, machinery is made in Fitchburg, Mass.

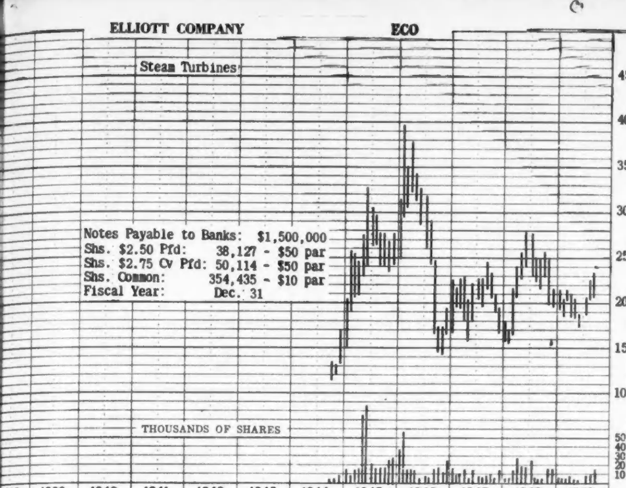
OUTLOOK: The well proven utility and economy of paper drinking cups and food containers of modern design and composition points to broad potentials for expanding volume while stability of sales is augmented by the rapid rate at which replacement orders flow in from satisfied customers. This applies equally to housewives able to eliminate much dish washing by the use of paper containers, and to industrial and transportation concerns providing drinking water served in paper cups. Research into new and promising markets has led to the development of at least 500 items in this special field. Now that pulp prices have been reduced, the company's operating costs should continue under good control, with margins wide enough to cushion any normal downtrend in competitive prices. How successfully Dixie Cup has operated in good and poor times is shown by its unbroken dividend record for twenty years past. Reflecting a rise in net income to $6.65 per share for 12 months ended June 30 compared with $5.37 in the comparable preceding span, the directors recently advanced the quarterly dividend rate to 37½ cents a share from 25 cents formerly. As even this improvement would bring distributions to only about 25% of indicated 1949 net of about $6.50 a share, there is obvious room for a further advance or payment of liberal extras in due course.

FINANCES: An exceptiontionally sound financial position is indicated by a current ratio of better than 4 to 2 as of December 31, 1948. $6.5 million of term notes do not begin to mature until 1956.

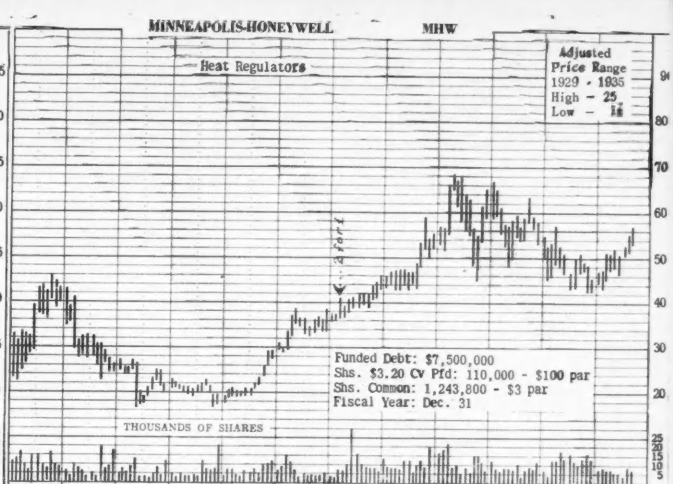
MARKET ACTION: Recent price—32 compares with a 1949 high of 33 and a low of 24¼. Based on the advanced dividend rate, the current yield is around 4.5%.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	1940	December 31, 1948 (ooo omitted)	Change
Cash	$ 1,480	$ 1,773	+$ 293
Marketable Securities	....	1,025	+ 1,025
Receivables, Net	422	1,173	+ 751
Inventories	1,417	7,154	+ 5,737
TOTAL CURRENT ASSETS	3,319	11,125	+ 7,806
Plant and Equipment	5,135	13,705	+ 8,570
Less Depreciation	2,645	4,177	+ 1,532
Net Property	2,490	9,528	+ 7,038
Other Assets	218	265	+ 47
TOTAL ASSETS	$ 6,027	$20,918	+$14,891
LIABILITIES			
Accounts Payable	$ 336	$ 841	+$ 505
Accruals	506	1,748	+ 1,242
TOTAL CURRENT LIABILITIES	842	2,589	+ 1,747
Reserves	65	625	+ 560
Long Term Debt	....	7,325	+ 6,500
$2.50 Class "A" Stock	3,573	3,573	....
Common Stock	203	203	....
Surplus	1,344	6,603	+ 5,259
TOTAL LIABILITIES	$ 6,027	$20,918	+$14,891
WORKING CAPITAL	$ 2,477	$ 7,711	+$ 5,234
CURRENT RATIO	3.9	4.2	+ .3



	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.		1.61	1.55	2.76	2.86	3.40	2.57	1.34	1.15	3.99	7.14	
DIV.		.50	.50	1.00	.50	1.00	1.00	1.00	.50	.25	1.50	
Wkg Cap $ Mil		2.6	2.7	2.9	3.4	3.4	4.7	7.5	6.8	11.7	11.3	



	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	.71	1.63	1.93	2.10	1.89	2.41	2.36	2.48	3.87	5.10	4.49	
DIV.	1.00	1.00	1.50	1.50	1.25	1.25	1.25	1.25	1.80	2.00	2.50	
Wkg Cap $ Mil		7.6	7.9	8.6	10.7	11.8	15.3	17.9	20.3	21.5	30.5	

ELLIOTT COMPANY

BUSINESS: Company ranks high among producers of heavy power plant equipment, including steam and gas turbines, electric generators and motors. Turbochargers for diesels, tube cleaners, blowers and steam condensers account for a substantial portion of total output. The company, a pioneer in the gas turbine field, has distinct growth characteristics.

OUTLOOK: As the heavy equipment made by this concern usually requires considerable time for completion and specifications are complex, orders once placed on the books are less subject to cancellation than in many other industries. Thus backlog orders of close to $22.8 million on June 30 provided rather dependable clues as to volume expectancies for many months ahead. Sales of $27.3 million in 1948 indicate that the company is well booked up for probably a year, considering incompleted orders and new business appearing. Postwar steps to enlarge and modernize Elliott Company's facilities are now bearing fruit. In the first six months of 1949, sales advanced about 8% but on this enlarged volume net earnings rose by almost 20%, net of $4.47 per share comparing with $3.75 in the corresponding interval a year before. The net profit margin of 12.5% in the first half showed a gain of more than 2%, evidencing increased operating efficiency. Looking ahead, it is possible that somewhat lower sales and earnings should be expected, but sizable orders should continue to come in from the Government and from many utilities planning to spend several billion dollars in the next few years. As for the dividend outlook, distributions last year and so far in 1949 have been ultra-conservative in relation to earnings. Payment of a 50 cents year-end extra in 1948 brought the total to only $1.50 per share. 25 cents a share was paid in each of the three past quarters of1949, together with an extra of 25 cents on September 30. Another extra in the final quarter is anticipated.

FINANCES: Working capital of around $11 million seems fully adequate, as a current ratio of 3 to 1 would indicate. At the beginning of the year, the company had utilized bank credits of $2 million to draw upon if required.

MARKET ACTION: Recent price—23 compares with a 1949 range of high—23¾, low— 17⅛. Tht current yield, based on 1948 dividends, is 6.5%.

COMPARATIVE BALANCE SHEET ITEMS

	1940	December 31, 1948 (ooo omitted)	Change
ASSETS			
Cash	$ 712	$ 3,362	+$ 2,650
Marketable Securities	....	500	+ 500
Receivables, Net	1,228	6,556	+ 5,328
Inventories	2,157	6,480	+ 4,323
TOTAL CURRENT ASSETS	4,097	16,898	+ 12,801
Plant and Equipment	3,172	10,134	+ 6,962
Less Depreciation	1,353	4,042	+ 2,689
Net Property	1,819	6,092	+ 4,273
Other Assets	260	227	— 33
TOTAL ASSETS	$ 6,176	$23,217	+$17,041
LIABILITIES			
Accounts Payable	$ 393	$ 2,132	+$ 1,739
Accruals	554	1,150	+ 596
Income Tax Reserve	406	2,301	+ 1,895
TOTAL CURRENT LIABILITIES	1,353	5,583	+ 4,230
Notes Payable	....	1,500	+ 1,500
Preferred Stock	1,137	4,412	+ 3,275
Common Stock	1,784	3,544	+ 1,760
Surplus	1,902	8,178	+ 6,276
TOTAL LIABILITIES	$ 6,176	$23,217	+$17,041
WORKING CAPITAL	$ 2,744	$11,315	+$ 8,571
CURRENT RATIO	3.0	3.0	....

MINNEAPOLIS-HONEYWELL REGULATOR COMPANY

BUSINESS: Company is the dominant producer of automatic heat-regulating devices for industrial and home use, as well as of various recording and controlling instruments. Numerous subsidiaries operate in foreign countries.

OUTLOOK: Improved sales and earnings in the first half of the current year indicate that 1949 will estabish satisfactory results. Comparisons with 1948 are somewhat distorted by unfavorable conditions early last year, though the final quarter brought record improvement. This gain seems to have held well in 1949, net earnings of $1.79 per share in the first six months comparing with $1.21 as of June 30, 1948. Normally, the second half year brings a seasonal uptrend in the company's business, and now that fuel oils are in ample supply at a time when there may be a shortage of coal, consumers are apt to increase their purchases of oil heaters that require automatic heat regulators. Total 1949 net is estimated around $5.50 a share. The large scale construction of new housing units, likely to continue for an indefinite period ahead, enhances potentials for stable volume and earnings. As long as the petroleum, metals and chemical industries continue to modernize their facilities, demand for the company's special control instruments is bound to be substantial. Research by Minneapolis-Honeywell resulted in the introduction of 42 new products last year and improvement to 69 others. Development of electronic controls for gas and oil burners, as well as for air-conditioning equipment should broaden market potentials in the future. In similar manner, the aeronautical division's output of Autopilots and control instruments for both military and commercial use is likely to expand because of recent improvements in their manufacture.

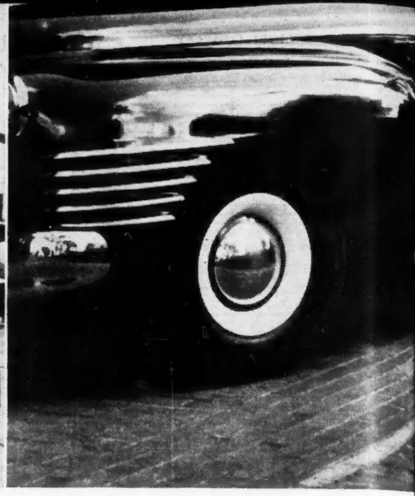
FINANCES: No problems of finance seem to handicap this strong concern, as working capital needs were amply covered by an issue of $7.5 million 2.85% notes due 1963. Current assets of $39.2 million early this year compared with current liabilities of only $8.67 million.

MARKET ACTION: Recent price—58 compares with a 1949 range of high—59, low—43½. The current yield is about 4.4%.

COMPARATIVE BALANCE SHEET ITEMS

	1940	December 31, 1948 (ooo omitted)	Change
ASSETS			
Cash	$ 3,929	$ 2,955	—$ 974
Marketable Securities	....	7,500	+ 7,500
Receivables, Net	1,899	9,749	+ 7,850
Inventories	4,119	18,621	+ 14,502
Other Current Assets	62	398	+ 336
TOTAL CURRENT ASSETS	10,009	39,223	+ 29,214
Plant and Equipment	4,825	16,291	+ 11,466
Less Depreciation	1,560	5,572	+ 4,012
Net Property	3,265	10,719	+ 7,454
Other Assets	517	1,106	+ 589
TOTAL ASSETS	$13,791	$51,048	+$37,257
LIABILITIES			
Accounts Payable	$ 292	$ 3,546	+$ 3,254
Accruals	326	1,243	+ 917
Income Tax Reserve	1,447	3,883	+ 2,436
TOTAL CURRENT LIABILITIES	2,065	8,672	+ 6,607
Long Term Debt	....	7,500	+ 7,500
Preferred Stock	3,070	11,000	+ 7,930
Common Stock	3,291	3,731	+ 440
Surplus	5,365	20,145	+ 14,780
TOTAL LIABILITIES	$13,791	$51,048	+$37,257
WORKING CAPITAL	$ 7,944	$30,551	+$22,607
CURRENT RATIO	4.8	4.5	— .3





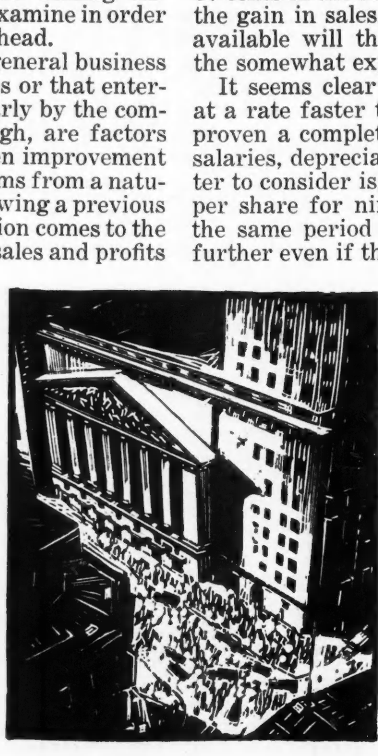
. . . . A STUDY OF . . . .

Third Quarter Earnings

By J. C. CLIFFORD

Third quarter reports of industrial concerns coming to hand thus far add another element to the gradually forming picture of the economy for the entire year. Pieced together with interim reports of previous quarters, the recent sales and earnings of individual companies reflect their progress through the maze of readjustment problems and uncertainties characteristic of turbulent 1949. The divergent experience of these firms, some still forging ahead, some operating on an even keel, and others making discouraging headway, is interesting to examine in order to uncover clues as to what may be ahead.

To what extent the fall pick-up in general business has benefitted, or failed to benefit, this or that enterprise, is sometimes shown rather clearly by the company reports. More significant, though, are factors that tend to indicate whether a sudden improvement in operations is merely seasonal or stems from a natural elasticity in order placements following a previous abnormal decline. Similarly, the question comes to the fore as to whether a continued lag in sales and profits indicates little hope of near term recovery or if the turning corner may be close at hand. In many, if not most cases, operating potentials for the final quarter are obscured by uncertainties over strikes, materials shortages and the rising tide of demands for pensions.



At this writing, the number of incoming reports is still too limited to establish definite conclusions as to the progress of various industrial groups. In the absence of comprehensive data, furthermore, it is sometimes difficult to properly appraise operating results of individual firms, many of them merely stating earnings figures. We append a list of representative companies, though, that have furnished information, statistical or otherwise, meriting examination. To portray more clearly trends that have developed since midyear 1948, we present, wherever possible, sales and earnings for each of the five last quarters. Let's discuss a few of these cases to interpret what the latest figures and comments by the managements may suggest.

Exceptional stability has characterized the operations of Hercules Powder Company from quarter to quarter in the last year and a half, with both sales and earnings varying only nominally in each period. Net volume of $32.9 million for the three months ended September 30, 1949, however, was about 9% above each of the two preceding quarters and the best of the entire five quarterly periods. Net earnings of 89 cents a share in the third quarter, compared with 87 cents in the June period, failed to correspond with the gain in sales. Not until the full year results are available will the reasons appear why margins on the somewhat expanded sales failed to keep pace.

It seems clear that materials costs have declined at a rate faster than sales in 1949, but this has not proven a complete offset to rigid outlays for wages, salaries, depreciation and taxes. The important matter to consider is, that whereas net earnings of $2.66 per share for nine months compared with $3.04 in the same period of 1948, the spread might narrow further even if the coal and steel strikes do not bring widespread trouble in the final quarter. Hercules Powder has paid 45 cents quarterly dividends this year in contrast to 35 cents a share plus a year-end payment of $1.20 in 1948. An exceptionally strong financial status suggests that shareholders will be accorded equally liberal treatment as to an extra payment in the near term, unless the unexpected occurs.

That leading producers of building materials may be pulling out of their readjustment pains experienced in the first half year is indicated by the third quarter report of Johns-Manville Corporation. Following record sales of $51 million in the final quarter of 1948, volume declined

to approximately $38 million in the two following quarters, accompanied by a 40% drop in earnings to 97 cents a share. A gain of 13% in September quarter sales to $43.1 million resulted in net earnings of $1.58 per share, the best since the corresponding quarter a year earlier. Now that this concern has virtually completed its $50 million postwar expansion and modernization program and prolonged strikes no longer hamper the production of asbestos, its operating potentials have been enhanced. The bright outlook for construction activities points to well maintained high level sales (subject to seasonal fluctuations), aided by substantially increased capacity and cost savings that may offset lower prices forced by competition.

Though third quarter sales of $388.6 million by General Electric Company were 6% higher than in the same period of last year, net earnings of $21 million were 28% less, amounting to 73 cents per share. Inspection of our table shows the ups and downs in earnings since the third quarter of 1948. The management explains that comparisons with a year earlier are considerably distorted because in the quarter just ended, no non-recurring item appears such as the $6.5 million received from liquidation of the G.E. Employees Securities Corporation in September, 1948. But mainly accountable for lower earnings has been the difficulty of maintaining normal margins this year in a period when demand for the company's numerous products has been highly erratic and schedules hard to establish.

Much more significant than interim earnings trends of this strongly entrenched concern was a sharp pick up in demand for practically all of the company's household appliances in the September quarter. So marked has been the uptrend in incoming orders that, regardless of the steel situation, General Electric Company reports its inability to meet all production requirements for the remainder of 1949. In the face of abnormal difficulties, the earnings of G.E. for nine months were reported as $2.34 per share, not so much below the $2.91 earned in the same interval of 1948. Stability of the 50 cents per share quarterly dividend now seems assured for the near term, provided problems of materials supply do not become acute.

One of the most drastic declines in earnings reported thus far in 1949 has been reported by American Woolen Company. Whereas this leading manufacturer earned $2.31 per (*Please turn to page* 146)

Quarterly Comparison of Sales and Earnings

	1949						1948			
	3rd Quarter		2nd Quarter		1st Quarter		4th Quarter		3rd Quarter	
	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share
Admiral Corp.	$23.9	$1.48	$29.5	$1.62	$23.5	$1.54	$24.2	$1.52	$15.1	$ .89
American Airlines	27.8	.32	28.0	.53	21.7	.09 d	24.9	.11	25.7	.11
American Woolen	28.2	.13	25.9	.89 d	40.8	1.25	45.7	5.88	47.5	2.31
Atlas Powder	8.2	1.22	9.4	1.48	10.2	.79	10.6	1.00	11.4	1.16
Barker Bros.	6.9	.57	6.3	.41	6.6	.60	9.2	1.39	8.2	1.29
Barnsdall Oil	9.3	1.89	8.9	1.53	9.1	1.74	9.7	1.60	9.3	1.43
Brunswick-Balke-Collender Co.	10.6	2.52	6.0	.39	4.9	.19 d	7.3	1.35	11.0	2.72
Caterpillar Tractor	57.3	1.11	62.9	.98	65.0	1.27	70.6	3.91	57.2	1.22
Container Corp.	28.6	2.28	26.8	1.56	28.4	1.89	32.9	2.77	33.0	3.29
Douglas Aircraft(a)	35.8	3.63	26.2	1.62	25.8	3.34	38.3	6.47	37.4	2.54
Dow Chemical(a)	47.5	1.04	50.2	.63	51.6	1.23	51.8	1.49	47.1	1.15
DuPont	263.2	1.03	250.2	.90	251.7	.92	263.0	1.19	253.4	.81
Eaton Mfg. Co.	24.4	1.01	23.7	1.05	30.9	1.51	35.7	1.64	29.5	1.36
General Electric	388.6	.73	390.1	.69	411.6	.93	494.8	1.38	365.1	1.02
General Outdoor Advertising Co.	6.4	1.16	6.3	1.08	5.9	1.01	6.9	1.13	6.1	.98
Goebel Brewing	7.3	.41	7.7	.45	5.3	.30	6.0	.24	7.1	.38
Grayson-Robinson Stores	15.1	.14 d	21.0	1.10	16.5	.37	23.9	2.06	15.0	.29
Hercules Powder	32.9	.89	30.2	.87	30.1	.90	31.7	.93	31.1	.95
Howe Sound	4.4	.77	4.5	.56	5.7	1.67	5.8	2.16	5.2	1.78
Johns Manville	43.1	1.58	38.1	.97	38.0	.97	51.1	1.55	44.8	1.78
Liggett & Myers Tobacco	150.4	2.13	140.7	1.80	133.4	1.92	141.3	2.45	148.1	2.82
McKesson & Robbins	87.9	.98	82.1	1.12	88.6	1.11	96.4	1.55	87.3	1.09
National Supply	30.9	.04	36.1	.87	40.4	2.01	45.2	3.45	42.3	2.28
Pennsylvania-Dixie Cement	5.6	1.34	4.8	1.24	3.1	.59	4.9	1.27	5.6	1.89
Philip Morris & Co.	65.0	2.06	63.4	1.75	56.3	1.41	60.5	1.73	60.7	1.95
Reliable Stores	5.6	1.16	5.7	1.16	3.8	.17	7.8	1.51	5.9	1.49
Rheem Mfg.	13.3	.64	12.8	.55	11.0	.53	15.3	.64	15.7	.88
St. Regis Paper	28.1	.02 d	31.2	.15	34.8	.39	39.2	.50	39.5	.60
Shell Oil Corp.	204.7	1.26	192.7	1.20	205.2	1.59	221.3	2.16	208.4	1.97
Sunray Oil	15.4	.32	14.6	.36	14.4	.45	18.2	.61	17.4	.67

(a)—Fiscal quarters ending August, May, February and November. (d)—Deficit.

Dividend Casualties

—WHERE TEMPORARY—WHERE BASIC

By GEORGE W. MATHIS

In our previous issue, we discussed prospects for increased dividend liberality, briefly examining some of the companies likely to improve their distributions to shareholders. But dividend trends follow a two way street, as shown by approximately 155 dividend casualties thus far in the current year, including reduced payments, deferred action or complete omissions. It is accordingly of interest to study the various causes for such actions in order to determine whether they may be temporary or, in the case of some concerns, may suggest prolonged handicaps.

The status of ready cash resources in corporate balance sheets during the 1949 period of readjustment has been a predominant influence in determining dividend policies. Top-heavy inventories often incurred severe losses for many concerns caught in a maze of price declines, thus reducing working capital. Uncertainties as to volume potentials in a year of flux and awareness of record high break-even points stimulated caution over distribution of cash out of shrinking treasury holdings, at least in numerous instances where earnings were heading downward. The larger and well financed concerns, by a sizable majority, were less influenced by such considerations, though a good many with extensive improvement programs still under way, felt the need of retaining an abnormal share of earnings to the detriment of dividends.

Where the shoe has pinched most, broadly speaking, has been among certain marginal concerns whose operations this year abruptly changed from a sellers' market to a marked competitive arena. Many enterprises in this group that for several years past could move their capacity output with lush profits, have now returned to more normal conditions that from previous experience may bring leaner or even drab earnings for an indeterminate period. That enterprises of this sort should be the first to indicate dividend conservatism is only natural. Aside from this category, though, some relatively small but well managed concerns have been losing ground to their major competitors, in part through inability to match vast promotional activities and partly because essential price cuts might wipe out their margins. Confident as some of these competent managements may be over prospects to hold their own or forge ahead within reasonable time, it has been entirely rational for them to adopt "wait and see" policies and to some extent hoard cash until the outlook becomes clearer.

Other elements in the equation contributing to dividend instability deserve consideration. Doubtless the return of seasonal factors this spring has adversely affected earnings in comparison with similar periods of recent postwar years. Pending clarification of this surmise, a necessary step in appraising volume trends, some conservative managements probably were influenced to exercise restraint in their dividend policies, at least temporarily. It should also be realized that dividends in the last two years have often been commensurate with abnormal boom time earnings, and consequently were certain to contract somewhat in line with more normal expectancies. Where this has been the case, reduced payments should by no means be the forerunner of further reductions, and indeed may only form a new base for future improvement.

As not all of the foregoing generalities may apply to quite a number of dividend casualties in the current year, it is necessary to examine the situations on an individual basis. To assist our readers in this process we append in tabular form certain statistical data pertinent to a number of concerns that in 1949 have reduced or omitted dividends. The figures shown present earnings for several years past, together with relative dividend payments, Within space limitations we will discuss a few of these concerns to determine their dividend potentials in the light of recent cuts, and study the influence of general problems within an industry or special company factors that may have accounted for the reductions.

U. S. Smelting, Refining & Mining

Action taken by United States Smelting, Refining & Mining Company in omitting the final quarter dividend on the common following a reduction of the mid-year quarterly dividend to 25 cents a share from 50 cents paid in the previous quarter, reflects a sharp decrease in earnings in the current year. For eight months to August, net of 60 cents per share compared with $2.62 for the comparable preceding period. Lower prices for lead and zinc, exhaustion of ore in a Mexican subsidiary, together with less profitable operation of the company's Alaskan gold dredging property and generally higher mining costs contributed to pinch margins. As all of these handicaps are not likely to be soon overcome, the management plans to diversify operations by acquisition of interests in

other fields, as a start making substantial investments in two established oil concerns. Though a very strong financial position will facilitate progress in this direction, the expansion scale envisaged stimulates conservatism in dividend policies until actual benefits are realized. The company has paid dividends for nearly half a century on its preferred stock and in most years on its common, though the rate on the latter has been variable.

Shareholders in Bendix Home Appliances, Inc. were forewarned in 1948 of leaner times by receipt of only $1.12½ cents a share in dividends in contrast to $3 in 1947, reflecting a sharp earnings downtrend. To date in 1949, no dividends have been declared because of an accelerated decline in volume and earnings. Volume of $11.7 million in the first half year was far short of the $29.8 million reported at mid-year in 1948, and net earnings plunged to a mere 3 cents per share compared with $3.43 in the first six months a year before. Demand for washers and ironers, though, is rapidly reviving, and as this concern has lowered its prices and is offering a complete line of new models, volume and profits will probably become more satisfactory hereafter. The company's dividend record has been very spotty for a number of years and it has yet to prove how it can contend with keen competition in normal times.

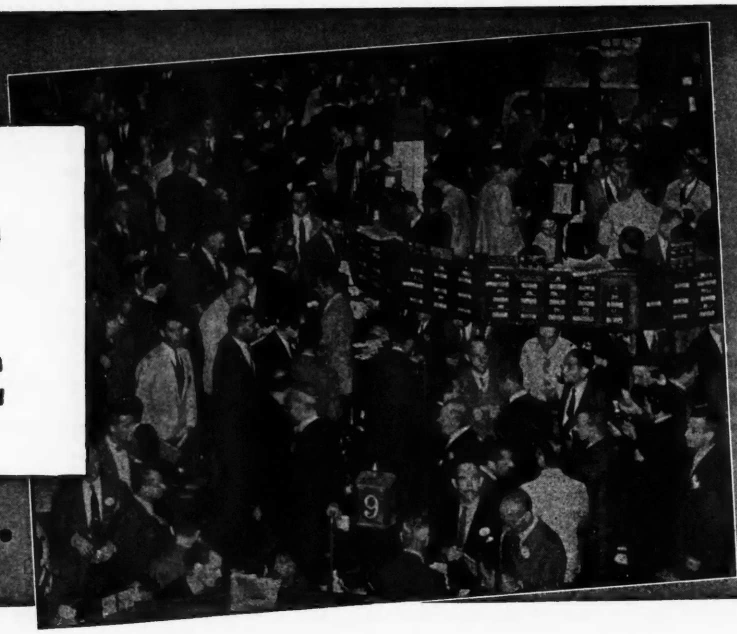
While 1947 and 1948 were two of the most prosperous years in the experience of Celotex Corporation, 1949 has been less encouraging. Though building construction has held up well, dealers in every area have been reducing (*Please turn to page* 141)

Statistical Data on Companies Which Reduced or Omitted Dividends

	Net Earnings Per Share			Dividends Per Share					
	1947	1948	1st 6 mos. 1949	1947	1948	Paid 1949 To Date	1949 Dividend Reduced From To	Recent Price	Price Range 1949
Bendix Home Appliances, Inc.	$10.08	$3.78	$ .03	$3.00	$1.125	$ .375	Dividend Deferred	9	11 - 6¾
Bohn Aluminum & Brass	.54	2.76	2.34(d)	2.00	1.00	.75	Dividend Deferred	23½	27 -21
Bridgeport Brass	1.19	1.97	1.77(d)	.90	.15	.15	Dividend Deferred	7⅛	9⅜- 6½
Celotex Corp.	6.59	7.21	.77(c)	1.125	1.75	1.50	.50 Q to .25 Q	16⅝	26¾-13¾
Cerro de Pasco Copper	1.33	2.03	NA	2.00	1.625	.75	Dividend Deferred	19⅞	21¼-14¾
Climax Molybdenum	.97	1.04	.29	1.20	1.20	.70	.30 Q to .10 Q	12½	15¼-10½
Collins & Arkman	.60	.92(a)	(d).76(e)	1.50	1.00	.50	Dividend Deferred	16⅛	17¾-13¾
Consolidated Textile	5.69	4.13	.78(b)	1.40	1.60*	.95	.25 Q to .20 Q	7⅞	9⅜- 7⅛
Continental Diamond Fibre	2.06	1.88	.64	1.00	1.00	.45	.25 Q to .10 Q	7½	9⅛- 6¼
Creole Petroleum	5.06	7.68	1.99	2.85	3.60	2.25	.90 Q to .75 Q	36	41⅛-28½
Cudahy Packing	4.32	.36	NA	.815	.60	.30	Dividend Deferred	7¼	8⅞- 5¾
Felt & Tarrant Mfg. Co.	2.64	3.93	.57	2.00	3.00	.80	.35 Q to .10 Q	12⅝	20¾-12
Firth Carpet Co.	2.59	3.91	1.11	1.25	1.60	1.00	.35 Q to .25 Q	12½	17¾-11⅛
Florence Stove Co.	5.42	6.14	.97(f)	2.25	2.25	1.00	.50 Q to .25 Q	22¼	28 -18½
Follansbee Steel	8.22	5.29	.59	2.50	3.00	1.00	Dividend Deferred	11⅝	24⅞- 9⅛
General Cable	2.79	1.75	.41	.50	1.00	.60	.25 Q to .10 Q	7⅞	10 - 6
Great Western Sugar	1.89	2.69	2.18(i)	1.70	2.00	1.50	.40 Q to .30 Q	18⅞	19⅞-16½
Hunt Foods, Inc.	5.51	.42	NA	1.00	1.00	.50	Dividend Deferred	9½	11½- 8⅜
Inspiration Consol. Copper	3.93	3.87	1.16	2.25	2.50	1.25	.50 Q to .25 Q	13¼	18¼-11⅝
Kalamazoo Stove & Furnace	2.66	2.10	1.24(d)	.80	.95	.50	Dividend Deferred	10	12⅝- 8½
Lehigh Coal & Navigation	1.37	1.81	.38	1.00	1.00	Nil	Dividend Deferred	8⅝	11⅜- 6¾
Magma Copper	2.40	2.58	.18	1.00	1.00	.25	Dividend Deferred	14¼	20 -10⅜
Manhattan Shirt	5.02	(g)2.32	(a) .34(d)	1.90	1.75	.95	.35 Q to .25 Q	17	18 -15¼
Mead Corp.	7.33	6.36	1.59	1.55	2.00	1.25	.50 Q to .25 Q	13⅞	17⅛-12⅛
Mengel Co.	3.95	3.12	.80(d)	1.45	1.25	.75	Dividend Deferred	9⅜	13⅝- 7⅜
Morrell (John) & Co.	3.61	3.23	NA	1.125	1.875	1.00	.375 Q to .125 Q	18	23 -16½
Nat. Enameling & Stamping	8.93	2.69	.11	1.00	1.50	.25	Dividend Deferred	9	14⅛- 7⅛
Pacific Mills	9.59	11.39	2.49(f)	3.00*	3.50*	3.00	1.00 Q to .50 Q	27⅝	34⅞-27⅛
Pepsi-Cola	1.18	.55	.35	.95	.425	.10	.125 Q 1948 to .10 in 1949	9⅛	12 - 8⅛
Pittston Co.	9.69	8.56	1.80	.50	2.00	1.00	.50 Q to .25 Q	24¼	29 -19¼
Radio Keith Orpheum	1.30	.13	.57	1.20	.60	.45	Dividend Deferred	7⅝	9¼- 7
Superior Steel	3.98	3.44	1.02(d)	1.00	1.25	1.00	Dividend Deferred	10	14¾- 8¾
U. S. Rubber	9.39	8.43	2.30	4.00	5.00	2.50	1.00 Q to .50 Q	34⅝	43 -31¾
U. S. Smelting Ref. & Mining	5.11	5.62	.60(h)	3.00	2.00	1.25	Dividend Deferred	37⅞	46½-33½
Vanadium Corp.	.93	3.17	.17(d)	Nil	1.00	.25	Dividend Deferred	20⅜	25½-17
White Motor	7.95	4.98	.27	1.50	1.45	.90	.40 Q to .25 Q	14⅜	16⅝-12½

*—Plus Stock Div.
(a)—Year June 30, 1949.
(b)—Year Aug. 31, 1949.
(c)—9 mos. July 31, 1949.
(d)—Deficit.
(e)—6 mos. Aug. 31, 1949.
(f)—1st 9 mos. 1949.
(g)—7 mos. June 30, 1948.
(h)—8 mos. Aug. 31, 1949.
(i)—Fiscal year Febr. 28, 1949.

FOR PROFIT AND INCOME



Take Your Choice

Considering the news, the market keeps doing the unexpected by edging progressively into new highs for the year in terms of the daily average. In doing so, the market may be saying either (1) that stocks are preferable to cash, (2) that better times are ahead, or (3) it may be a question of many equities being revalued. A case can be made for point 1, particularly by those who consider revival of inflation inevitable. Point 2 is a moot question, except perhaps for a temporary post-strike spurt in production to refill emptied pipelines. Point 3 undoubtedly carries considerable logic. Under the cloak of a persistent though on the whole unspectacular uptrend, there has been a good deal of revision of values.

Selectivity

Just as many issues have been doing better than the average, so many others have participated little in the advance which carried the market to new highs. Explanations for such poor performances is usually found in earnings statements. Groups which acted poorly include bituminous coal mining, railroads (mostly the coal carriers), railroad equipments, steels, textiles and non-ferrous metals. And there have been quite a few individual cases among building, chemical, drug, soft drink and even television shares. Thus stocks in this category, while the Industrial Average has been setting new highs, are found anywhere from five to ten points under their 1949 highs and anywhere from five to thirty-five points below their 1948 highs. They are likely targets for tax selling, thus will hardly perform well in the weeks ahead. Not too many short term losses are available in view of the market's sharp recovery from the June lows though plenty long term losses can still be taken. Often this leads to year-end bargains in the markets but one should beware against the thought that a stock is a purchase because it has declined, or lagged behind the market. There may be some such cases, but they can only be identified by thorough analysis. In most cases, a good reason for laggardness usually sticks out like a sore thumb. Take American Woolen, for instance, which last December sold around 36 after establishing an earlier high of 56⅞. Anyone who then picked it up in a year-end switch, or otherwise, today would have a neat twelve point loss. The stock, in other words, was no bargain despite its sharp decline from the previous high.

Earnings

Corporate profits declined further in the second quarter, according to a Department of Commerce compilation, the third successive quarterly decline from the 1948 high in the third quarter. Before taxes, second quarter profits were \$6.6 billion, 12% below the \$7.5 billion earned in the first quarter and about 25% below the like quarter of 1948. Declines were most acute in textiles, apparel and chemical lines but were also noted in metal mining and in most non-metal manufacturing industries except tobacco and food. They

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Goebel Brewing	Sept. 30 Quarter	\$ .41	\$ .38
Martin (Glenn L.) Co.	Sept. 30 Quarter	.54	.23
United Biscuit Co.	9 mos. Sept. 30	3.99	3.71
Corn Products Refining	9 mos. Sept. 30	3.61	2.40
General Foods Corp.	Sept. 30 Quarter	1.21	1.14
National Biscuit	Sept. 30 Quarter	.74	.71
Pennsylvania Salt Mfg.	Sept. 30 Quarter	1.00	.77
Wrigley Jr. Co. (Wm.)	9 mo. Sept. 30	4.82	4.51
Norwich Pharmacal	Sept. 30 Quarter	.55	.47
Libby-Owens-Ford Glass	9 mos. Sept. 30	5.95	3.83

were sharply higher in the former, only a trifle lower in the latter. Another outstanding exception was the auto industry; because of it, the drop was also smaller in most metal industries which were sustained by high automotive activity. The third quarter earnings picture now unfolding should show some marked changes, mostly on the upside; but we shudder to think of the fourth quarter if the strikes don't stop soon.

Penny Stocks

Low priced stocks recently have been spurting ahead, making up for their former lag in performance behind better grade equities. A boom in the penny arcade is usually regarded as a sign that speculators are coming in again. They are the group who make bull markets, as well as bear markets. Low priced stocks are their favorites not only because they are "cheap" (this usually applies to the quotation only), but also because they move faster than the blue-chips. The divergence in trend between the low priced and high priced stocks as recently reflected by our own indices for these groups, if it persists, could in the light of previous experience point to an early "break-out"—with the direction depending on news developments. It could be either up or down.

Nostalgic

Speculation however isn't what it used to be, as every broker will tell you. Speculative interest, though revived, is neither broad nor intense enough to signify *per se* the imminence of any danger point in the market. If the market hereafter goes down, it will be for reasons other than speculative excesses.

Acting Well

Examination of group action for the rally to-date finds paper and leather equities top gainers, partly because they started from a very low area. They are followed by utilities, fertilizers, distillers, soap, automobile and building companies. In the medium range we find oils, dairy products, chemicals, agricultural machinery, office equipments and finance companies, all of course with the usual exceptions because of the selectivity factor discussed earlier. Also, some of these started from a relatively high level! The same is true of some of the groups which performed worse than average. They include tobaccos, confectionery, natural gas, containers. Others which did less well because of industry factors include electrical equipments, nonferrous metals, meat packing, railroad equipment, shipping and the rubbers.

Bull Signal

Recent penetration by the Rail Average is supposed to have "signalled" a bull market but if so, the market to-date has made little of it. There are several plausible reasons. One is that opinions differ as to the validity of the signal; another that many people have long ceased to take much stock in the Dow Theory, particularly under today's market conditions. Still others are doubtless mindful of what happened last time when a similar "signal" was given. Those who acted on it were promptly led into a trap, for it signalled the early end rather the beginning of an upward movement, Once burned, doubly cautious. Few today consider a Dow signal as gospel, yet the number of Dow Theory adherents remains sufficient to stir the market, however mildly, on any such occasions.

Gold Stocks

The recent flurry in gold mining shares is largely attributed to placement on international refuge money formerly invested in Swiss securities and suddenly transferred to the U. S. when devaluation of the Swiss currency was thought imminent in the wake of sterling and other devaluations. The Swiss didn't devalue, as it turned out, but this "scared" money is now supposed to be here, largely invested in gold stocks and prime industrial issues. Whatever its real significance, it's a plausible enough story. Foreign devaluation doubtless threw enough scare into some nervous holders to induce them to switch their repositories. To what extent this may have contributed to general market firmness here, as some suggest, is another question and far more difficult to answer, or to check.

Gold Price Rumors

These never cease; they come and go regardless of official denials. The more recent ones doubtless helped to put firmness into gold stocks. Disclaimers of any imminent plans for revaluing gold are by some at least received with skepticism, if only because we live in a world of money values fixed by state dictation rather than the free market, and because the temptation to tinker with money is getting stronger. But logic argues against such a step at this time. Quite often, too, the origin of such rumors borders on the ludicrous. Thus in the latest instance, it is said to have been traced back to a sudden unexpected demand by the U. S. Government for Swiss francs to make a large war indemnity payment to Switzerland. The market for Swiss francs being normally small, immediately the rumor had it that "wise money" is fleeing the country in anticipation of upvaluation of gold and devaluation of the dollar. And some, doubtless, were moved thereby to acquire gold stocks as a precautionary measure. All of which goes to show that rumor is not a good basis for investment decisions. Most gold shares today are fairly high relative to earnings and

(*Please turn to page* 141)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Air Reduction Co., Inc.	Sept. 30 Quarter	$ .57	$ .60
Climax Molybdenum Co.	Sept. 30 Quarter	.04	.24
Lion Oil Co.	9 mos. Sept. 30	2.74	3.60
Southeastern Greyhound	Sept. 30 Quarter	.58	.59
Bendix Home Appliance	Sept. 30 Quarter	.38	1.13
American Chicle Co.	Sept. 30 Quarter	.91	.95
Caterpillar Tractor	Sept. 30 Quarter	1.11	1.22
Rheem Mfg. Co.	Sept. 30 Quarter	.64	.88
Gillette Safety Razor Co.	9 mos. Sept. 30	4.13	4.95
Mathieson Chemical Corp.	Sept. 30 Quarter	1.34	1.63

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Lily-Tulip Cup Corporation

"I would appreciate your advising on sales and earning trend of Lily-Tulip Cup Corporation this year and also dividend payments."

R. J., Rutland, Vermont

Dollar sales volume of Lily-Tulip Cup Corporation continues to run well ahead of the corresponding 1948 period, although as a result of narrower profit margins, earnings are little changed from a year ago.

Contributing to the relatively high level of sales the past summer has been the favorable weather — the hot days of July and August, which stimualted the use of paper cups and containers — also the further widening of uses of the company's products as new lines have gained increased acceptance.

Final quarter 1949 comparisons may not be so favorable as in the third quarter, due to return of seasonal sales swings now that expanded production facilities in the industry have permitted the manufacturers to meet present demand.

The return of seasonal sales trend was evident in the early months of this year, and largely accounted for the fact that dollar sales volume in the 1949 first quarter showed a slight decline from the year before, despite some upward price adjustments. Second quarter sales showed a sharp recovery, however, to bring dollar sales for the first half-year 13.5% ahead of the 1948 first six months.

Earnings failed to make as favorable a comparison, with first six months' profits down slightly at $3.18 a common share, after dividends on the new preferred, from $3.52 a share in the like period last year.

The profit margin squeeze has reflected cost increases in some directions. Also, certain profit sources have dwindled — for instance, sale of scrap paper, formerly a source of substantial income, is now less important.

Dividend rate is 50 cents per share quarterly.

American Sumatra Tobacco Co.

"Please advise on financial position and net income of American Sumatra Tobacco Company."

F. P., Burbank, Calif.

Net profits of American Sumatra Tobacco Company, listed on the New York Stock Exchange, for the fiscal year ended July 31, 1949, were the best in its history. The year's net income, after provision for taxes, was $2,462,177, equal to $4.27 per share on the capital stock outstanding compared with $2,-383,955 or $4.13 per share in the fiscal year ended July 31, 1948. The company is the world's largest producer and packer of shade-grown tobacco for cigar wrappers. Its farms are in Florida, Georgia, Connecticut and Massachusetts.

Net sales for the fiscal year were $8,876,370 compared with $9,113,-712 in the previous year.

The consolidated balance sheet as of July 31, 1949, showed total current and working assets of $10,724,708 and total current liabilities of $1,901,263, a ratio of better than 5 to 1. Inventories of tobacco were carried at $8,031,532 against $7,066,772 on July 31, 1948. Earned surplus at the close of the year was $6,314,657 against $5,006,586 the year earlier. Dividends paid during the year amounted to $2.00 per share.

The corporation's tobacco crops this year were considered only fair due to insufficient rains during the growing season. The prospects for coming sales appear favorable, although some competition from tobacco imported from Sumatra is anticipated.

R. H. Macy & Company

"I know that R. H. Macy & Company has expanded greatly in recent years and would like to know recent sales volume, net profits and prospects over coming months."

A.C., Memphis, Tenn.

For the year ended June 30, 1949, R. H. Macy & Company showed sales of $308,119,000, a decrease of approximately 2%, and net earnings of $6,834,000, equal after preferred dividends, to $3.57 per share of common stock. Net earnings for the previous year were $8,244,000, or $4.39 per share.

Net earnings were adversely affected not only by the decline in volume and the continuing high cost of doing business, but also by unusual costs incurred in connection with company's expansion and improvement program which has been in progress during the last two years. These costs, which amounted to $3,564,000 for the past year and $3,135,000 for the previous year, represent extraordinary costs incurred while construction and alterations were in progress, as well as other expenses incidental to opening of new and expanded units.

The major portion of the corporation's expansion and improvement program was substantially completed at the close of the fiscal year. Capital expenditures were made totaling $29,792,000 for the fiscal year and $14,084,000 for the previous year. During these

two years program consisted principally of constructing substantial additions to the stores in San Francisco and Kansas City, equipping a large addition made by the landlord to the Atlanta store, the construction of eight new branch stores, erecting a 400,000 square foot warehouse for Bamberger's, Newark, New Jersey, and completing two television stations. In addition, it included alterations, major repairs and additions incidental to modernizing and refurbishing other properties.

The sales for Macy's New York, the world's largest store, and its branches, total $182,457,000, and the volume of the corporation's other retail divisions were shown as follows: L. Bamberger & Company $56,167,000; Davison-Paxon Company $28,351,000; The La Salle & Koch Company $19,206,000; Macy's San Francisco $15,466,000; John Taylor Dry Goods Company $6,472,000.

Dividends of 50c per share quarterly have been paid on the common stock this year. Prospects over coming months appear favorable.

Royal Typewriter Company, Inc.

"Please advise recent earnings, sales volume and dividends of Royal Typewriter Company." *L. E., Trenton, N. J.*

Net sales of Royal Typewriter Company for the fiscal year ended July 31, 1949 were $42,554,891. These sales exceeded any pre-war year but were $7,152,641 or 14% less than the record-breaking net sales of $49,707,532 in the 1948 fiscal year.

The decline in volume in this past year largely resulted from the elimination of company's backlog of orders and from general economic conditions. The latter factor affected export as well as domestic business.

Additional revenues of $2,627,172 from rentals, repairs, and miscellaneous sources brought total revenues to $45,182,063 compared with the record total of $52,243,604 in the fiscal year ended July 31, 1948.

Net income, after providing $2,251,776 for Federal taxes on income, totaled $3,692,650, or $3.19 a share on the 1,074,472 outstanding $1.00 par common shares, after dividend payments of $263,844 on the 37,692 outstanding 7% cumulative non-callable preferred shares. This compares with a net income of $5,620,336, after providing $3,490,840 for Federal taxes on income in the preceding fiscal year, equal to $4.98 a common share, after payment of preferred dividends.

Company recently brought out an electric typewriter which is expected to be an important factor in future sales.

The overseas division of the company has been increasingly handicapped by the shortage of American funds in foreign market but everything is being done to maintain Royal's position in the ninety countries in which they have representation.

Total assets and total liabilities as of July 31, 1949 were $25,154,112 which compared with $25,265,997 the year earlier. Current assets of $19,998,356 were more than four times current liabilities of $4,649,148. Net working capital was $15,349,208 against $14,756,650 on July 31, 1948. Inventories totaled $9,091,293.

Dividend payments this year have amounted to $2.00 per share.

United Merchants & Manufacturers, Inc.

"I understand the textile business has declined the past year and as I am interested in United Merchants & Manufacturers, please furnish information as to the company's recent operations, financial position and new developments."
W. J., New Haven, Conn.

Earnings of United Merchants & Manufacturers, Inc. for the year ended June 30, 1949 showed consolidated net of $11,434,241, equivalent to $2.67 per share on the 4,280,250 shares of common stock outstanding. This compares with consolidated net earnings for the year ended June 30, 1948 of $22,042,248, equal to $5.15 per share.

Total net sales for the recent fiscal year period amounted to $254,852,960, including inter-company sales of $37,992,481. Net sales for period ended June 30, 1948 amounted to $256,085,413.

The re-adjustment in the textile industry and allied retailing field which began near the end of 1948 was pronounced during the first half of 1949. Since then there has been a moderate improvement in price levels and a substantial increase in the volume sales, with August 1949 bookings of new business the largest since October 1947.

Working capital of United Merchants & Manufacturers showed an increase of $1,834,930 with current assets of $75,929,904 against current liabilities of $32,079,625. Inventories totaled $35,387,406, compared with $36,869,352 last year.

Robert Hall Clothes, Inc., a retail clothing chain store subsidiary, operated satisfactorily, opening 20 additional stores and now operating 88 units reaching from the Atlantic to the Pacific coasts.

A new division has been formed to handle plastic materials and a sizable volume of sales have been created. The importance and widening course of Nylon in the textile industry has received ample recognition and is becoming increasingly important in the company's sales operations.

The fixed assets program entered into 1946 is nearing completion. Expenditures for the last three years amounted to $31,118,000, financed largely from accumulated earnings.

Quarterly dividends of 25c per share have been paid this year.

Union Tank Car

"Please report comparative revenues of Union Tank Car for the first half of this year with 1948 and if there was a decline, please give the reason."
D. W., Saybrook, Conn.

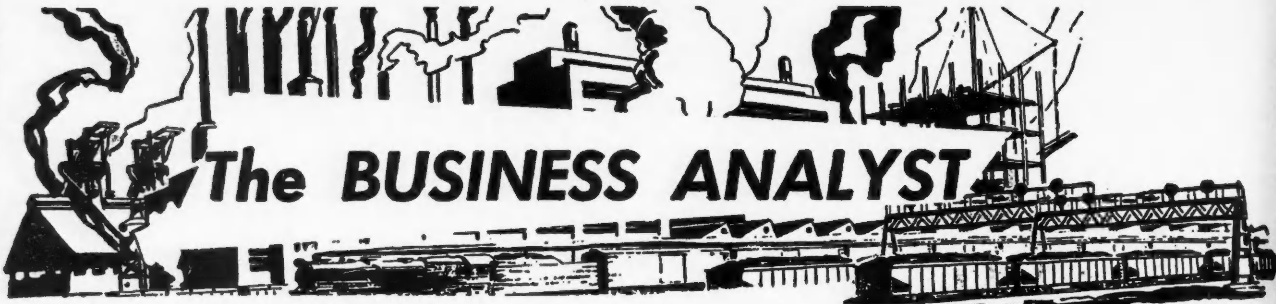
The Union Tank Car Company and its wholly owned subsidiaries reported for the six months ended on June 30, 1949, a net income of $1,508,263 after taxes and all charges.

The income is equivalent to $1.40 a share on the 1,076,797 shares of stock outstanding. It compares with $2,269,109, or $2.11 a share, earned in the first half of 1948.

Gross income from operations for this year's period declined to $7,872,345 from $9,511,553 in the corresponding six months of 1948. The decline was attributed largely to the curtailment of shipments of crude oil by rail and to the mild winter weather, resulting in less consumption of burning oils. The loss of revenue was offset to some extent by economies in the cost of maintenance and in general expenses that became manifest in the second quarter.

Shipments of furnace oil have been sluggish partly because of distributors' and consumers' hesitancy in filling their storage tanks. Unless we experience another mild winter, a transportation peak is expected to develop in the last quarter of this year. Barring serious interruption in general industrial activity due to strikes, the volume of shipments of company's cars in the last six months of this year should exceed the first six months.

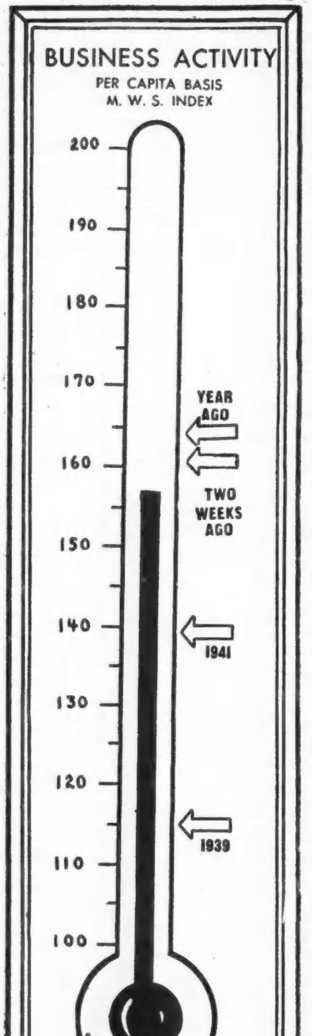
Dividends are on a regular 65c per share quarterly basis.



What's Ahead for Business?

By E. K. A.

Regardless of stock market complacency, the steel and coal strikes are beginning to put the brakes on general industrial activity. Steel inventories are going fast, lay-offs are increasing steadily, and industry generally is worrying about the post-strike period, even if the strikes should end in a week or two, in view of the length of time required for filling depleted supply pipelines. Hope for a comparatively early settlement apparently springs eternal, but so far at least lacks substantiation though not logic. Barring presidential intervention, an industrial crisis of the first magnitude may be upon the country within ten days, and it is difficult to believe that the Administration can look upon such a prospect with complacency.



Commerce Secretary Sawyer's prediction that the strikes may throw some five million men out of work if they run through November may seem a little high, though not much. More than one million are already out and the number henceforth is apt to swell rapidly as cumulative strike impacts are being felt in an ever-widening circle. It's bound to cast a grim shadow not only on the nearby trend of production but particularly also on fourth quarter retail trade and on Christmas business on which great hopes have been pinned. The screws are tightening daily, but thanks to ample advance stocking, the pressure to-date was relatively moderate. However, unless the walk-outs are settled soon, resultant curtailment of consumer buying, due to loss of worker income, is bound to narrow trade and manufacturing prospects.

In the appliance lines which have experienced a strong resurgence of consumer demand, there are numerous announcements of shortened schedules and full stoppages within the near future. Heavy construction, one of the bulwark of the recent business upswing, has been hamstrung by lack of steel. Steel container shortages are going to play havoc with the oil and chemical industries. Many manufacturing plants dependent on steel have been forced to cut down. And because of the coal tie-up, railroads are increasingly curtailing traffic. In short, development of an "industrial crisis" is no exaggerated description of what's going on. Creeping paralysis is noted everywhere, and will gain momentum as shortages multiply.

There is, however, a difference between short term and longer term impacts. The immediate effects doubtless will be deflationary; the strikes are definitely upsetting previous short term patterns. What about the outlook beyond? The chances are that resultant shortages and sales lags may produce quick spurts in output once the strikes are settled. Loss of one month of steel production, for example, may fully take care of the seasonal letdown in steel output widely anticipated for the fourth quarter. Instead of gradually dropping to a 60% or 70% production rate, the steel industry, after the strike ends, will have to snap back close to capacity operations to catch up with accumulated demands. The same might be true of other durable goods industries though some business, perhaps a good deal, is bound to be irretrievably lost for the consumer goods industries. The auto industry was headed for a seasonal slow-down; it may have to slow down prematurely, for lack of steel, but later find its market relatively stronger than would otherwise have been the case. In short, general activity for the balance of the year and possibly some months thereafter, once the strikes are settled and supply lines reopened, may be at a considerably higher rate than normally expected. There may be another inventory boomlet replacing the one that started this summer and was just beginning to fade somewhat when strikes began. But this shouldn't obscure the fact that moderate downward adjustments in various lines, particularly in heavy goods, will still have to be completed once these temporary factors have played out.

Effect of Higher Production Costs

There is another angle. The strikes almost certainly will mean higher production costs. The question is: Can they be passed along? If not, they will cut into profit margins and earnings. If they are passed along, volume may shrink sufficiently to have a deflationary effect, particularly if there is serious income erosion because of the strikes. This presents a realistic problem especially at this time when general business is already "rocky" after a long boom, and when the general price trend is downward. The next few weeks will tell.

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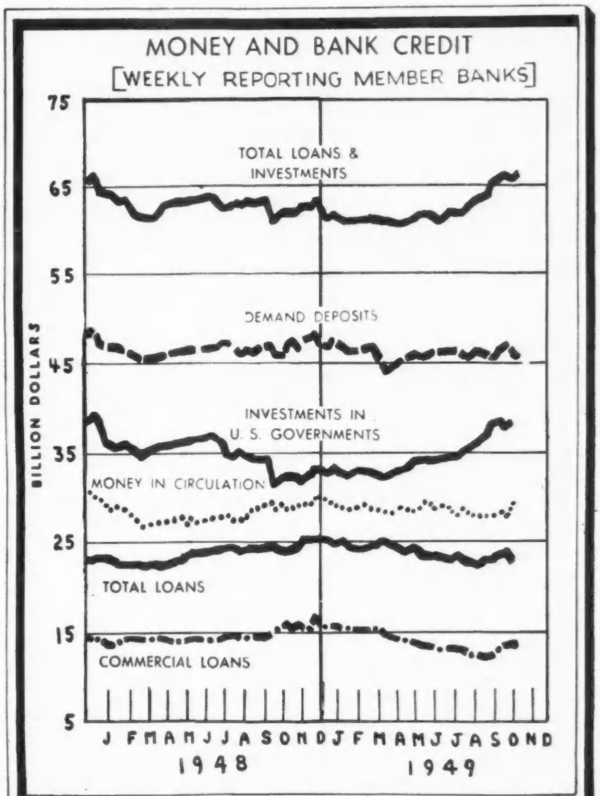
HIGHLIGHTS

MONEY AND CREDIT—On transactions averaging somewhat over a million shares daily, our index of 320 active common stocks managed to edge forward a little during the fortnight ended October 22 under leadership of the more speculative low-priced issues, thereby registering a net gain of 5.2% since the year opened. Among our 46 group indexes, 12 reached new highs for various periods, as tabulated on the second page following. The short interest as of October 14 was at a new high since July, 1932, when the great bear market of 1929-32 hit bottom. New York bank stocks spurted to the highest average level since January, 1947. Corporate bonds and preferred stocks displayed moderate firmness; but foreign government dollar bonds and U. S. Government issues were somewhat easier, with the restricted victory 2½s sagging to the lowest price since July 2. Selling was resumed in the London market following announcement that no general election will be held this year. This led to fears of heavier taxation, higher interest rates, and further extension of the program to nationalize industry. Stocks were also weak on the Paris bourse due to political, social and financial uncertainties created by devaluation and consequent difficulties in establishing a stable government. In the bank report fortnight ended October 12, commercial loans continued to expand slowly; but were still $1.9 billion under a year ago. An increase of $100 million in reserves also permitted purchases of Government securities to be resumed, raising earnings assets to $4.1 billion above last year, which helps to account for recent strength in bank stocks. Treasury deposits with reserve and weekly reporting member banks were reduced $721 million; yet demand deposits declined $174 million—$310 below last year. Senator Byrd predicts that the Treasury will end the current fiscal year with a $7 billion deficit; "or just about the amount we are spending in Europe." Europe may not recover for many years from the economic and social damage resulting from two wars and the fast expanding menace of atheistic communism. Thus we seem to be facing a long period of heavy taxes and/or deficit financing.

TRADE—Department store sales in the fortnight ended October 15 dropped to 12% below last year; thereby widening to 6% the cumulative decline for the year to date. But sales throughout the nation by all retail outlets for the month of September were 2% ahead of August and only 2% under the like month last year. Britain's Chancelor of the Exchequer, Sir Stafford Cripps, reports that, though orders for British goods received from the dollar area have picked up a litle since devaluation, orders from sterling area countries have been expanding faster. Most prices in hard-currency countries, in terms of sterling, are now too high for overseas buyers.

INDUSTRY—Strikes depressed business activity in the week ended October 15 to 2.5% below last year. Manufacturers' orders showed some improvement in August; but were still well below last year. Non-farm incomes in August were still a shade larger than a year earlier. Construction still holds at near-record rate for this season of the year. Electric utilities earnings up sharply from last year.

COMMODITIES—Farm products prices advanced in futures markets, in response to extension of 90%-of-parity supports for another year, but spot prices responded feebly. Wool, rubber and hides recovered most of their post-devaluation declines. Coffee at new all-time high.



Strikes, freakish weather, and possibly consumer buying reluctance contributed to a drop of 12% below last year in **Department Store Sales** during the fortnight ended October 15, widening to 6% the cumulative decline for the year to date. At Philadelphia and New York City, where strikes were not a factor, the drop was even steeper.

* * *

Such a sharp decline can scarcely be accounted for by lack of money to spend. Prices are lower and savings larger than a year ago, while non-farm **Incomes** as recently as August were a shade higher than in the like month of 1948. Farm income, to be sure, was down 17% from last year; but not much of this is spent in city department stores.

* * *

Strikes were mainly responsible for a dip of over 2% in the nation's physical volume of **Business Activity** during the fortnight ended October 15, depressing the average level to nearly 3% below last year at this time. Carloadings were off 36% and electric power output, for the first time this year, dipped a little below the corresponding fortnight in 1946. It is estimated that over 1,000,000, or more than 2% of the nation's non-farm workers, have already been idled, directly and indirectly, by strikes.

* * *

It is hoped that, before too much damage is done, both the

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Sept.	1.30	1.29	0.97	1.55
Cumulative from mid-1940	Sept.	387.2	385.9	372.5	13.8
FEDERAL GROSS DEBT—$b	Oct. 19	256.6	256.5	252.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Oct. 12	46.2	46.3	46.6	26.1
Currency in Circulation	Oct. 19	27.4	27.5	28.1	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Oct. 12	8.05	8.22	7.99	4.26
93 Other Centers—$b	Oct. 12	11.78	11.90	12.45	7.60
PERSONAL INCOMES—$b (cd3)	Aug.	213.7	211.9	217.6	102
Salaries and Wages	Aug.	138.9	138.5	140.7	66
Proprietors' Incomes	Aug.	45.5	44.2	49.5	23
Interest and Dividends	Aug.	17.0	17.1	16.3	10
Transfer Payments	Aug.	12.3	12.1	11.1	3
(INCOME FROM AGRICULTURE)	Aug.	21.6	20.7	25.6	10
CIVILIAN EMPLOYMENT—m (cb)	Sept.	59.4	59.9	60.3	51.8
Agricultural Employment (cb)	Sept.	8.2	8.5	8.7	8.8
Employees, Manufacturing (lb)	Aug.	14.1	13.8	15.4	13.8
Employees, Government (lb)	Aug.	5.8	5.7	5.5	4.6
UNEMPLOYMENT—m (cb)	Sept.	3.3	3.6	1.9	3.8
FACTORY EMPLOYMENT (1b4)	Aug.	141	137	156	147
Durable Goods	Aug.	163	161	187	175
Non-Durable Goods	Aug.	133	126	141	123
FACTORY PAYROLLS (1b4)	Aug.	323	313	360	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Aug.	39.0	38.8	40.1	40.3
Hourly Wage (cents)	Aug.	140.0	140.9	137.3	78.1
Weekly Wage ($)	Aug.	54.60	54.67	55.06	32.79
PRICES—Wholesale (1b2)	Oct. 18	152.1	152.1	165.8	92.5
Retail (cdlb)	Aug.	186.7	186.8	196.3	116.2
COST OF LIVING (1b3)	Aug.	168.8	168.5	174.5	110.2
Food	Aug.	202.6	201.7	216.6	113.1
Clothing	Aug.	187.4	188.5	199.7	113.8
Rent	Aug.	120.8	120.7	117.7	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Sept.	10.89	10.61	11.09	4.72
Durable Goods	Sept.	3.48	3.63	3.31	1.14
Non-Durable Goods	Sept.	7.41	6.98	7.78	3.58
Dep't Store Sales (mrb)	Aug.	0.70	0.59	0.76	0.49
Retail Sales Credit, End Mo. (rb2)	Aug.	8.29	8.13	7.15	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Aug.	211	192	251	181
Durable Goods	Aug.	226	191	287	221
Non-Durable Goods	Aug.	199	193	230	157
Shipments (cd2)—Total	Aug.	325	294	342	187
Durable Goods	Aug.	343	332	368	227
Non-Durable Goods	Aug.	317	272	327	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Aug.	50.4	50.5	52.5	28.6
Manufacturers'	Aug.	29.1	29.7	30.4	16.4
Wholesalers'	Aug.	8.0	7.8	8.1	4.1
Retailers'	Aug.	13.3	13.0	14.0	8.1
Dept. Store Stocks (mrb)	Aug.	2.0	1.9	2.6	1.4
BUSINESS ACTIVITY—1—pc	Oct. 15	157.1	158.5	164.4	141.8
(M. W. S.)—I—np	Oct. 15	181.9	184.6	186.5	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 137)

steel and coal **Strikes** will be settled, even if the Administration has to invoke provisions of the much snubbed Taft-Hartley law. Business will then pick up again under a rush to replenish depleted inventories. Strikes have little influence upon longer swings in the business cycle; but they can cause a lot of temporary havoc.

* * *

For the month of September, this publication's index of **Business Activity** rose to 184.5% of the 1935-9 average, from 181.2 in August, showing a decline of only 1.2% below the like period last year. Average for the third quarter was 181.2, 1.6 point below the second quarter, and 3.6% under last year. Average for the first nine months was 184.0—2.2% under the corresponding first three quarters of 1948.

* * *

On a **Per Capita Basis,** the index for September registered 159.8% of the 1935-9 average, compared with 157.4 in August, and 164.5 for September, 1948. Third quarter average was 157.2, against 159.2 for the second quarter, and 165.9 for last year's third quarter. Average for the first nine months was 160.3, compared with 166.8 for the like period last year.

* * *

The rebound in manufacturers' **New Orders** in August was none too brisk. There was a 10% gain over the vacation month of July; but total volume was still 16% smaller than a year earlier. Orders for iron and steel snapped back to 34% above July; but were still 32% below last year. Non-durables reported a nominal gain of 3% above July; but were still 13% under the like month of 1948.

* * *

New orders booked by **Furniture** makers in August were only 5% under a year earlier, compared with a 22% slump for eight months. Shipments were 64% ahead of July; yet unfilled orders rose 9%.

* * *

New orders for **Machine Tools** booked during September were 12% ahead of August; but 34% under the like month of 1948. Devaluation of the pound sterling accounted in some measure for a 28% drop below August in foreign orders; yet they were still 18% above last year.

* * *

Wholesale and retail outlets replenished their **Inventories** by $500 million between July and August. A major portion of these

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Aug.	170	162	191	174
Mining	Aug.	128	123	159	133
Durable Goods Mfr.	Aug.	194	185	223	220
Non-Durable Goods Mfr.	Aug.	164	155	177	151
CARLOADINGS—t—Total	Oct. 15	584	574	913	833
Manufactures & Miscellaneous	Oct. 15	320	314	422	379
Mdse. L. C. L.	Oct. 15	88	88	112	156
Grain	Oct. 15	53	52	52	43
ELEC. POWER Output (Kw.H.)m	Oct. 15	5,481	5,450	5,482	3,267
SOFT COAL, Prod. (st) m	Oct. 15	2.4	2.2	12.5	10.8
Cumulative from Jan. 1	Oct. 15	344	342	469	446
Stocks, End Mo.	Aug.	68.6	69.1	64.1	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Oct. 15	5.0	5.0	5.6	4.1
Gasoline Stocks	Oct. 15	103	103	92	86
Fuel Oil Stocks	Oct. 15	69	68	60	94
Heating Oil Stocks	Oct. 15	87	85	74	55
LUMBER, Prod. (bd. ft.) m	Oct. 15	671	610	638	632
Stocks, End Mo. (bd. ft.) b	Aug.	7.9	7.9	6.3	12.6
STEEL INGOT PROD. (st.) m	Sept.	6.57	6.71	7.42	6.96
Cumulative from Jan. 1	Sept.	65.0	58.4	65.1	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Oct. 20	122	144	129	94
Cumulative from Jan. 1	Oct. 20	6,589	6,467	5,628	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Oct. 15	191	283	186	165
Wood Pulp Stocks, End Mo. (st)t	Aug.	139	146	98	98
Hosiery Production (pairs)m	Aug.	148	116	140	150
Whiskey, Domestic Sales (tax gals.)	Aug	4.4	4.1	4.0	8.1
Do., Stocks, End Mo.	Aug.	603	603	533	506
Anthracite Coal Production (st)m	Sept.	2.1	3.7	5.0	3.8

PRESENT POSITION AND OUTLOOK

additions, however, must have been supplied from manufacturers' stocks, which declined $600 million.

* * *

While reports from the **Non-Ferrous Metals** industry have been more encouraging of recent months, the rebound has not yet been vigorous enough to inspire confidence in its duration. Shipments of refined copper to domestic fabricators in September were up 13% from August; but were still 16% below the like month of last year. Inventories were down 13%, the first decline since March; yet they were still at a mountainous height of 170% above the year-ago level. Zinc, however, made a poorer showing than the month before. Shipments to domestic users were off 27%, unfilled orders shrank 25%, while inventories rose a bit.

* * *

Reports from the **Construction** industry, on the other hand, are still encouraging. Thus in September, for example, 100,000 new non-farm dwelling units were started—a new high for that month. Reversing the earlier trend this year, private building is picking up contraseasonally, while public construction activities have tended recently to ease down a little.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

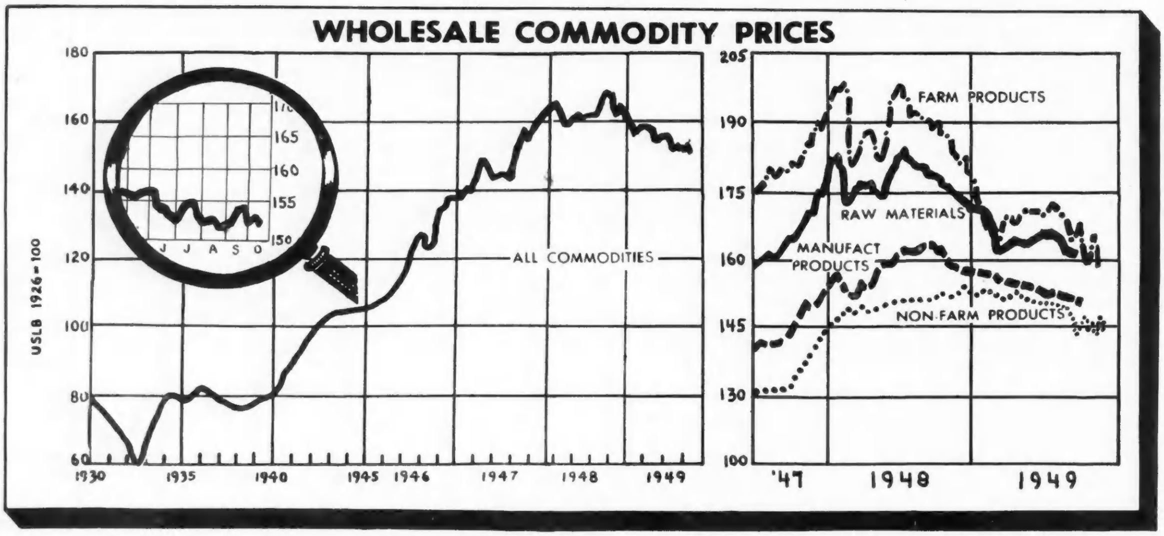
No. of Issues (1925 Close—100)	1949 Indexes High	Low	Oct. 15	Oct. 22
320 COMBINED AVERAGE	127.6	108.0	127.3	127.5
4 Agricultural Implements	200.0	162.1	193.2	194.2
10 Aircraft (1927 Cl.—100)	175.3	138.2	157.0	166.5
6 Air Lines (1934 Cl.—100)	454.7	366.1	436.8	452.9
6 Amusement	93.4	75.7	84.5	88.3
12 Automobile Accessories	188.9	145.2	176.7	175.6
12 Automobiles	29.7	21.3	26.4	26.2
3 Baking (1926 Cl.—100)	19.7	18.1	19.7	19.7
3 Business Machines	237.4	209.0	230.8	228.1
2 Bus Lines (1926 Cl.—100)	134.8	118.3	134.8A	131.7
5 Chemicals	244.1	212.7	244.1A	241.9
3 Coal Mining	19.2	11.2	14.2	14.1
4 Communication	39.4	31.8	37.8	38.7
13 Construction	58.5	47.4	57.1	56.8
7 Containers	286.2	240.7	284.9	283.8
9 Copper & Brass	95.8	67.4	77.9	77.8
2 Dairy Products	66.1	53.3	66.1B	65.8
5 Department Stores	58.0	49.2	56.1	55.3
6 Drugs & Toilet Articles	171.1	141.6	171.0	171.1A
2 Finance Companies	303.0	246.1	303.0C	299.0
7 Food Brands	169.5	146.0	169.4	169.5A
2 Food Stores	88.6	58.5	86.6	88.6C
3 Furniture	70.7	54.7	66.0	67.3
3 Gold Mining	771.3	566.3	771.3A	760.8

(Nov. 14, 1936, Cl.—100)	High	Low	Oct. 15	Oct. 22
100 HIGH PRICED STOCKS	82.03	71.00	82.03A	81.85
100 LOW PRICED STOCKS	146.36	119.71	143.87	144.76
6 Investment Trusts	65.9	53.9	65.9A	65.8
3 Liquor (1927 Cl.—100)	755.9	602.9	748.5	755.9A
10 Machinery	136.9	115.9	133.9	132.8
3 Mail Order	104.9	87.1	101.5	100.7
3 Meat Packing	79.9	63.3	73.3	76.8
12 Metals, Miscellaneous	158.1	122.0	146.8	143.7
4 Paper	37.3	27.9	36.8	37.0
29 Petroleum	254.3	207.1	253.8	254.3A
21 Public Utilities	132.2	102.4	132.0	131.3
6 Radio (1927 Cl.—100)	26.7	13.6	18.1	17.9
9 Railroad Equipment	50.0	36.5	41.7	43.7
24 Railroads	23.4	17.5	20.5	20.0
3 Realty	29.4	21.4	27.8	27.2
3 Shipbuilding	144.4	120.0	135.9	138.8
3 Soft Drinks	367.4	298.2	330.4	331.0
14 Steel & Iron	106.2	77.0	91.0	90.6
3 Sugar	48.5	39.8	46.3	48.0
2 Sulphur	304.0	233.8	304.0T	301.8
5 Textiles	132.5	100.9	121.0	119.2
3 Tires & Rubber	31.6	26.6	28.4	28.6
6 Tobacco	84.2	67.1	83.2	82.9
2 Variety Stores	346.2	308.3	330.6	330.6
17 Unclassified (1948 Cl.—100)	112.0	93.2	111.4	112.0A

New HIGH since: A—1948; B—1947; C—1946; T—1928.

Trend of Commodities

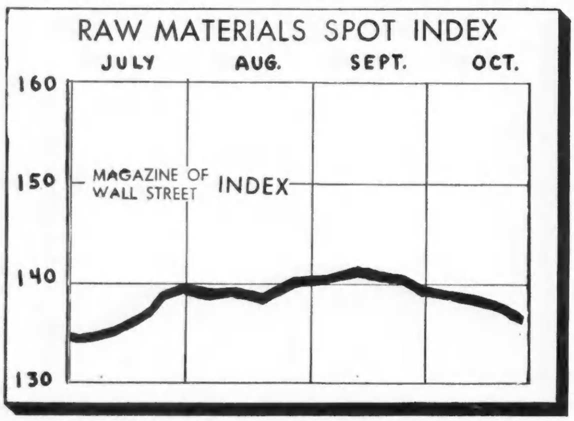
Farm products futures rose substantially during the fortnight ended Oct. 22, spurred by extension of 90%-of-parity supports through 1950. Coffee spurted to a new all-time high on the crop damage by floods in Brazil at a time when consumption is running far ahead of supply. Unfavorable weather conditions in Guatemala, Columbia and other coffee-growing areas have also aggravated the situation; though currency devaluations and Britain's austerity program may cut Europe's annual consumption of 8 million bags by as much as 20%. Cash prices in several instances resisted the advance in futures, so that our index of raw material spot prices declined almost as much as the Dow futures index gained, with lead dropping to 13 cents due to continued competition from devalued imports. Wool, rubber and hides, on the other hand, have almost recovered their post-devaluation losses, owing to sharp offsetting advances abroad. Under the new farm price support law, parity from now on up to 1951 will be based upon the old formula using the 1909-14 average, or a new "modernized" system, figured on the farmers' "fair return" in the past 10 years, whichever is higher. But farmers are beginning to grumble over prospective Government regimentation. Thus, with cotton consumption lowest in nine years and production highest in 12 years, Agriculture Secretary Brannan has asked farmers to vote on December 15 on acceptance of acreage controls and marketing quotas on the 1950 cotton crop, aimed at cutting output by 24%. A two-thirds majority of ballots must favor the curbs before they can become effective. If rejected, the next step will be to cut support prices, a fate just incurred by flaxseed.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

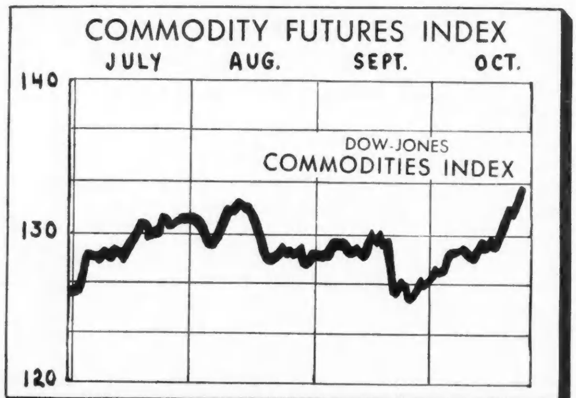
	Date Oct. 24	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	246.3	245.2	246.5	235.7	244.7	305.1	156.9
11 Imported Commodities	251.7	245.4	244.4	242.3	250.5	278.3	157.3
17 Domestic Commodities	242.8	245.0	247.8	231.5	241.0	323.8	156.6
7 Domestic Agriculture	293.8	296.0	294.6	295.8	285.7	323.1	163.9
12 Foodstuffs	297.8	294.0	290.2	289.5	279.7	354.9	169.2
16 Raw Industrials	224.1	224.4	227.9	213.4	232.0	275.7	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.9	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	122.45	139.83	117.14	93.90	55.45	46.59	45.03	52.03

For Profit and Income

(*Continued from page* 133))

dividends and only attractive if a higher gold price ultimately eventuates. Even then, the big question is: Will the gold mining industry be allowed to profit from it, such as last time? It's by no means certain.

Tire Prices

Pinched by costs, tire manufacturers are again upping their prices after lowering them last June to stimulate sales. Apparently the industry is satisfied with the nearer term sales outlook, or at least convinced that raising prices now is not likely to affect it appreciably. Earnings experience during the first half year has been diverse. Goodrich reported $6.02 per share against $7.64 a year ago; Goodyear $3.24 vs. $6.16; Firestone $4.02 vs. $6.04 and U. S. Rubber $2.30 vs. $4.70. Dollar sales of Goodyear, which initiated the price rise, in the September quarter ran about 10% below the like period last year, about the same rate of decline experienced in the first half. The squeeze on earnings has been far more pronounced, as reflected by the profit comparison. Generally, September quarter sales in the industry appear to have run 10% to 15% behind a year ago figures.

Dividend Casualties—Where Temporary—Where Basic

(*Continued from page* 131)

their inventories, so that volume for nine months ended July 31 declined to $26.6 million from $39.7 million in the comparable span of 1948. On sharply lower sales, margins narrowed and net earnings for the nine months' period cited fell to 77 cents a share compared with $5.33 in the same interval a year before. Although this deterioration in operations is probably temporary, caution evidently induced the management to pay dividends of only 25 cents a share in the last two quarters as against 50 cents in the two preceding intervals. The bright outlook for low cost construction suggests that demand for Celotex products will increase before long and that in due course the company's dividends may be improved.

A fall pickup in business for the leading textile producers has enhanced their outlook but the spring slump was so severe that a moderate decline in dividend payments created little surprise. Take Pacific Mills, for example, reporting net earnings of $2.49 per share in the first nine months of 1949 compared with total dividends of $3.00 paid in the same period. In relation to 1948 earnings of $11.39 a share, these distributions would appear very moderate, though top heavy if the lower rate of earnings is not improved. Pending clarification of the outlook, Pacific Mills has declared only 50 cents a share for the final quarter, a step that seems commendable in view of the uncertain earnings picture.

Firth Carpet Co.

The last three years have been exceptionally prosperous for the leading manufacturers of rugs and carpets and by normal standards, 1949 would be considered quite satisfactory despite lower earnings. The experience of Firth Carpet Company in earning $1.11 a share in the first half year showed that profits were running at a rate well above any year in the decade prior to 1945, although reduced prices cut into margins. But while a record net of $3.91 a share last year amply covered dividends of $1.60, the management has wisely and progressively reduced the quarterly rate in line with the late earnings trend. In other words, 40 cents a share was paid in the first quarter, 35 cents in the second period and 25 cents in the third quarter. It would seem likely that the latter rate may hold for some time, though extras may be paid when earnings warrant.

John Morrell & Company, a relatively small but successful pork packer, has had its share of operating difficulties common in the meat industry this year. Fluctuations of prices for both hogs and wholesale products have handicapped smooth progress in this field during most of the year. This concern has reported no interim earnings but since June has declared dividends of $12\frac{1}{2}$ cents per share in contrast to $37\frac{1}{2}$ cents formerly. Since John Morrell & Company enjoys an unbroken dividend record since 1929, it is probable that temporary unfavorable operating troubles will not be allowed to reduce payments further. Rather an uptrend should be in store before very long.

A few very strong concerns with earnings at peak levels in 1948 have moderately reduced their dividends this year in order to conserve cash for uncompleted expansion programs, as pointed out early in our discussion. Creole Petroleum Corporation furnishes a good example. In the last few years, this large producer and refiner of crude oil has plowed back vast amounts of earnings for development work and to increase its productive facilities. In the 1943-48 period, annual dividends expanded consistently from 50 cents a share to $3.60 last year. At the outset of 1949, though, planned capital outlays of almost $120 million and prospects of reduced earnings led the directors to lower quarterly payments from 90 cents to 75 cents a share, a rate that has held steady to date. As this concern has no senior securities ahead of the common, it could readily complete its improvement program through outside financing at low rates, but clearly preferred to stick to ultra-conservative policies. In due course, when the major undertakings have been completed, stockholders will doubtless benefit from the expanded earnings base and lessened capital needs.

Food Processors

Food processors in the current year have generally experienced above-average favorable operating conditions, except in the meat packing industry, and the same things could be said of last year. But Hunt Foods, Inc., a prominent canner and processor of fruits and vegetables, with plants mainly on the West Coast, reported widely varying earnings in 1947 and 1948, though dividends of $1 per share were paid in both years. Sharply reduced sales last year, together with high costs and inventory adjustments, reduced net earnings to 42 cents a share compared with $5.51 in 1947. While net sales were reported as $17.6 million for six months ended May 31, 1949, compared with $11 million in the same span a year earlier, the directors took no action on third quarter dividends, formerly maintained at 25 cents a share.

As interim earnings have not been reported, it can only be assumed that profits have been unsatisfactory, though a strong financial position is indicated by an announcement that the company paid off all bank loans at midyear. The rather spotty record of this concern clouds prospects for greater dividend stability.

1929 and Today

(*Continued from page* 115)

trend only recently modestly reversed mainly on seasonal grounds.

There is no credit strain to speak of, and private debt is low relative to the general level of economic activity, income and liquid assets. Both business and individuals possess large liquid assets. The mortgage debt, except that part most recently incurred, is to a large decree on an amortization basis. Perhaps half of our homes are debt-free and the owners of a goodly part of the balance have built up substantial equities. This applies particularly also to farm property. Wholesale foreclosures of homes and farms, as in the 1930s, are improbable. If trouble arises, the Government will hold the bag.

Then, back in the Thirties, we had little of what might be called "built-in security." Today we have a reasonably comprehensive system of unemployment insurance and old age pensions as an aid to purchasing power in recessive periods. Farm markets, however artificially, are held up by Government price supports.

Above all, we are today a much bigger country in an economic sense. In 1929, we were a nation of 123 million; today we are 149 million, well able to absorb the bulk of our national output despite the increase in our productive facilities. This should help cushion any future business decline.

One trouble spot, however, is the rigidity of our wage structure. There is always the danger that maintenance of inordinately high wages (under recessive conditions) is a good way of destroying payroll income, a point which labor apparently fails to grasp.

Last, but not least, business men have learned a great deal about the business cycle. Ever since recessive trends have been evident, there has been an abundance of business caution. Patently, the lessons of the past have been well learned. As a result there is little inventory strain, no overextension in credit or otherwise. The recession has been the most widely heralded in history, for few expected the postwar boom to continue long at its peak. Thus business developed a spirit of caution and threw up mental and other safeguards which have been all to the good. (The stock market has done the same.) Generally, most people governed their affairs so that they could absorb some contraction without being hit too hard. It is this spirit of caution, in contrast to the careless exuberance of the Twenties, which weighs perhaps heaviest in the scale of factors militating against a repetition of 1929. More recently it has often been regarded by some as needlessly overstimulating deflation.

Many Uncertainties Remain

This doesn't mean, of course, that all is clear sailing. There are great uncertainties and potential dangers centering chiefly on Government policy and a badly fouled up foreign situation. Government policy can and will determine the trend of capital investments by industry, the infusion of risk capital needed to maintain a healthy and prosperous level of economic activity. But even if Government is willing to adopt constructive policies in this respect, the danger is that it may not be able to go sufficiently far because of the exigencies of the foreign situation and its insistence of moving ever closer to the welfare state.

For example, lower taxes would be a first class economic stimulant but how can taxes be lowered if Government spending is headed for new peaks? Again we hear the ominous cry for higher taxes to balance the budget. But there is no perceptible willingness to practice economy in Government, the best way to balance budgets. Instead, deficit spending has been made a fait accompli, followed by the warning that taxes must be raised to find enough money to run the Government.

Thus we find ourselves on the horns of a dilemma. If we raise taxes, it will be deflationary. If we continue deficit spending, inflationary pressures will arise anew. Either could seriously interfere with orderly readjustment.

There is no escaping the fact that the messed up foreign situation is one of the biggest trouble spots. In some respects, efforts have been made to avoid a repetition of the errors of the Twenties. There has been no avalanche of private postwar loans to European countries headed for certain default. Instead, the Government stepped in. Thus we had UNRRA, the British Loan, the Marshall Plan and finally the rearming of Western Europe. No one expects the billions involved ever to be paid back; they have been or still have to be paid out of taxes, hence our budgetary difficulties. We have exchanged the latter for the financial troubles that usually go with default, hitting individual investors or institutions and leading to financial hardship, frozen assets and the kind of financial upsets that followed in the wake of wholesale defaults in the Thirties. Losses are not avoided, but they are spread more evenly through taxation.

Also, recognizing our position as a creditor country (which we failed to do after World War I), we are at long last taking steps to boost imports to enable foreigners to pay, in greater degree, for their American purchases with their own products. Together with other measures, such as devaluations abroad, this should make for a freer flow of world trade. Whether, jointly, these moves will be sufficient to achieve the desired goal is premature to say. The real impediments to international trade must be much more vigorously attacked than thus far has been done to get the world off the American dole, or avoid a new collapse once we withdraw our help. Narrow economic concepts and the exigencies of the "cold war" are not easy to deal with.

Foreign Spending

Our underwriting the world, in substantial degree, has helped sustain a high level of domestic business activity and while such aid lasts, it will continue to be a strong, if costly, economic stimulant. Should it suddenly cease, before an ample and free flow of

world trade is re-stimulated, the impact could be severely restrictive on our economy though it need by no means spell a recurrence of our experience during the Thirties. The broadening and strength of our domestic economy argues against it. So does, in a sort of negative way, the persistent trend towards a planned economy which in case of trouble would mean a far greater role of Government in combating depression, though at the cost of loss of economic freedom, mounting deficits and inordinate taxation.

All of which emphasizes the vital importance of our efforts to bring back world stability, regenerate broader and sounder world trade, and adapt our economy to the requisite conditions for such trade. It will necessitate further practical recognition of our status as the world's leading creditor nation. It is bound to mean more foreign competition, both in home and world markets, but this is one of the sacrifices we shall have to bring in order to avoid worse.

Conclusions

To sum up, a parallel between 1929 and 1949 reveals great dissimilarities of conditions and policies, but also a good many similarities of causative factors. Resultant uncertainties are nonetheless great, hence the caution which has characterized the attitude of business and the stock market. Witness the stock market's reluctance in the past to properly capitalize high earnings and dividends because their permanency was questioned. Witness also the premature ending of the postwar stock market boom, in May 1946, long before the postwar business boom reached its peak. And, finally, look at the speed and realism with which industry has adjusted itself to recessive conditions wherever they appeared, instead of insisting on riding the crest of the postwar boom to the bitter end. In this very caution, plus the inherent strength of our economy, lies our assurance that anything approaching the collapse of 1929 is improbable. Time and reviving confidence may well tend to work in the opposite direction, but hardly without wise and constructive policies based on economic common sense rather than political expediency.

The depression of the Thirties was to a large degree an aftermath of World War I, aggravated by unwise policies. World War II, even more, has wrenched our economy and that of the world out of any normal pattern. Hence the global adjustment problems which the world and we ourselves are currently facing. The adjustment is far from complete and full of pitfalls, rendered difficult moreover by the fight against communism. Hence it will be neither simple, nor fast. For without eliminating war or the threat of war, we can never hope to bring about real economic stability.

Admittedly there are many considerations, not touched upon in the foregoing, that enter the question: What prospect of a recurrence of 1929? Most of these have primarily a bearing on the degree of possible recessive trends. But what we experienced in 1929, and the dark years thereafter, was not just depression but collapse, due mainly to a vastly overextended and later demoralized private financial economy. No such threat exists today. Our banking system, as stated before, is strong and liquid and will remain so if Government credit remains sound. With the requisites for collapse non-existent, there is assurance that anything like 1929, and thereafter, cannot now occur. This time any stresses and strains will be felt at the fiscal end, which at worst may mean more inflation, more Government control, a stronger veering toward a planned economy.

Investment Audit of Eastman Kodak

(*Continued from page* 124)

agement has held to its long established policy of charging off plant on basis of original cost rather than taking into account replacement costs. "Much dissatisfaction with this method is being expressed in many quarters," the company admits in its report to stockholders. Many authorities contend that under this formula, manufacturing costs are understated and net profits are correspondingly inflated.

It is argued that because original costs were much lower on the average than they would be under today's construction conditions, allowance should be made for higher replacement costs. "The company is well aware of the many problems involved in this situation and has considered the various views that have been expressed," it is explained. "Inasmuch as none of these views has yet become generally accepted, no change has been made in our established method. However, this should be made clear: Our earnings are being determined and reported under conventional accounting practices. Therefore they are much greater than they would be if put on a basis which stated all costs in terms of current prices. So long as this situation continues, the replacement of plant and equipment at current price levels will make it necessary to supplement the provision for depreciation by use of a substantial portion of retained earnings."

Depreciation Policies vs. Dividends

Kodak's policy with respect to depreciation is stressed here because it has an important bearing on dividend distributions and therefore on probable market action of the shares. Until completion of the plant expansion program, it would be reasonable to suppose that retained earnings will be ploughed back into tangible assets, and recognition of this accretion in values may be given through stock dividends. A year ago, a 5 per cent distribution in stock was authorized and this was distributed last January.

The extent to which earnings have been diverted to new facilities is indicated by appropriation of $40 million (net profit after taxes for 1948 came to $55.5 million) for new and improved production, including a new laboratory, this year. This total compares with $38.6 million spent last year, when net profit came to $43.2 million. Over the four years since the war plant expansion has cost a little more than $162 million, or about $21 million less than an estimated $183 million net after taxes for the four-year period.

In relation to reported earnings — which, as explained, probably are overstated in comparison with actual plant investment — dividends have remained conservative. As cash requirements for expansion diminish in the coming year, however, management may feel disposed to distribute a larger proportion of net profit, assuming, of course, that the outlook for general business is satisfactory.

Although sales are governed in a measure by the trend of national income and, if business experiences another downward adjustment in 1950, sales may be adversely affected, management feels more reassured than otherwise would be the case because of the prospect for elimination of wartime excise taxes. Possibility of repeal probably would be enhanced by a business setback. Relief from the so-called luxury tax would be in nature of a price reduction. Moreover, the company has increased prices only nominally since the beginning of the war. On the average, prices of Kodak products are only about 21 per cent above levels prevailing ten years ago. This compares with a rise of more than 100 per cent in average hourly wages in manufacturing plants in the same period. At the same time, average prices of materials purchased by the company rose 75 per cent.

Margins and Costs

The fact that operating profit margins have somewhat receded this year in reflecting rising costs and keener competition is not surprising. To combat this influence, advertising efforts have been stepped up and increased efficiency has been achieved through new equipment. The indicated moderate downtrend presents no hazards, inasmuch as the financial position is strong and dividend requirements are modest in relation to earnings.

The company has no funded debt and common capitalization of slightly less than 13 million shares is preceded by 61,657 shares of $6 non-redeemable preferred stock. At the end of last year cash items represented about $78 million of $224 million current assets. An additional $102 million consisted of inventories. Current liabilities at that time stood at $95 million. Although the shares have only moderate appeal for the speculator interested primarily in capital gain, since fluctuations customarily are rather narrow, they have proved especially desirable for long term holding. Notwithstanding impressive growth over the last half century the company continues to merit consideration for progress in the years ahead.

India—New Keystone in Our Asiatic Policy

(*Continued from page* 121)

their product in terms of dollars. This preposterous situation cannot go on very long without doing serious harm to the jute and burlap industry of both India and Pakistan. An eventual adjustment is inevitable.

If India is to assume an effective leadership in Southeastern Asia, she must, in the first place, put an end to inflation. One way to deal with this problem would be to come to terms with Pakistan regarding the Kashmir issue. This would make possible a severe cut in defense expenditures, which is essential to the balancing of the budget. The next problem that must be attacked and that unfortunately will take a long time to set right, is the increase in food production. This may involve teaching the Indian peasant to plant new crops (Mr. Nehru is urging the planting of sweet potatoes), the raising of the yield of the old crops, and the extension of the area under cultivation by irrigation and soil improvement schemes. All this, of course, fits perfectly into President's Truman Point Four Program, and it is unquestionable that a great deal of good can be accomplished with a relatively small outlay of dollars.

Finally, India needs foreign capital for the modernization of her existing plants and for the development of new industries as well as of natural resources. But the foreign investor cannot be ex-

pected to rush in when the local "risk-taking entrepreneur class is benumbed to undertake any new enterprise under the weight of excessive taxation, labor legislation, etc." (From a recent speech by Darab Cursetji Driver, a prominent Indian businessman.) Before that happens, the Government of Pandit Nehru must adopt a more realistic taxation policy, restore greater discipline among labor and, above all, modify some of its nationalistic and nationalizing ideas.

Market Possibilities

As in China, even a slight rise in the purchasing power of India's 360 million people would offer tremendous market possibilities. This was demonstrated two years ago, when India, not too pressed as yet by the dollar shortage at that time, spent over four million dollars for American fountain pens alone. She was then one of our best markets for radios, and she continues to be the best market for our dyestuffs. Future export prospects are not bad; they depend mainly on India's dollar earning power and on the size of our prospective investments.

During the inter-war period, India's trade was largely with the British Empire, though the Japanese and the Germans managed to win a sizable share. In the five year period 1935-39, our exports to India consisting largely of machinery, electrical equipment, automobiles, and petroleum products, averaged about $35 million a year. Our imports averaged nearly twice as much, or $70 million a year, and consisted mainly of jute and burlap, shellac, cashew nuts, tea, carpets, and carpet wool. The two countries discovered the possibilities of the mutual exchange of goods during the war, when the Japanese and the Germans had no access to the Indian market and when the British were unable to deliver.

The American-Indian exchange of goods reached a peak in 1947; in that year India took over $400 million worth of our goods and we imported about $235 million worth of Indian products. There was a dollar trade deficit of some $150 million. The dollar gap in the overall payments with the United States reached $260 million, and again $150 million in 1948. These deficits were financed by drawing on the sterling area gold and dollar pool.

It is obvious that the pool could not withstand a drain of this magnitude for very long, A sharp restriction of dollar purchases was decreed in 1948, and again this year. The devaluation of the rupee should bring them down further. As will be seen from the accompanying table, India bought here only $13 million worth of goods in August 1949 (the 1947 monthly average was about $34 million). Although the exports of bread grain were still important in 1938, prospects are best for exports of machinery, motor vehicles, electrical equipment, and dyestuffs.

The purpose of Nehru's visit to the United States is clearly political as well as economic though first fruits are likely to ripen in the economic field. A U.S.A.-India barter deal is currently being negotiated, reportedly involving a swap of between $100 million and $125 million worth of American grains against Indian manganese ore and mica. It may be just a forerunner of other and similar agreements later, involving a greater number of barter commodities.

Political and Economic Aims

Politically, the visit may be said to have as its aim the exploration of the area and extent of cooperation between India and the West, in view of making India a new anchor of defense against forward sweeping communism in Asia. In view of Pakistan's alleged pro-communist attitude, India's position is doubly important.

In the field of trade, closer cooperation and U.S.A. help is not only desirable per se, to stimulate world trade, but for other reasons as well. First, only a solvent and prosperous Indian economy will make political cooperation practicable and effective; to that end, India must be strong and economically healthy. But beyond that, more active U.S.A.-India trade will help solve the problem of British frozen sterling balances by permitting Britain to reduce exports to the sterling area (India) and increase them to the dollar area. In other words, having fallen heir to Britain's position in Asia politically, we now must also assume some of the responsibilities that go with it in the economic field. It is one of the facets that make the visit of Pandit Nehru doubly significant.

A Study of Third Quarter Earnings

(*Continued from page* 129)

share in the September 1948 quarter and $5.88 in the final quarter last year, net of 13 cents a share in the third quarter of 1949 makes a discouraging comparison. Evidence is accumulating, though, that the preceding quarter, when a deficit of 89 cents a share was incurred, may have established the low mark for some time ahead. The company's break-even point at present evidently is close to $28 million of quarterly sales, a mark barely exceeded in the September quarter. A sudden influx of new orders in the period just ended pushed the company's backlog up to $41.8 million from a level of $21.8 million as of June 30, partially attributable to seasonal factors. This improvement is likely to be reflected by larger earnings in the final quarter, though to what extent the gain will hold after the turn of the year is unpredictable.

Net sales of American Woolen Company for the first nine months of the current year amounted to $95 million compared with $152.1 million in 1948 at September 30. Though earnings of only $1.26 million after taxes compared with $10.4 million for the first nine months of 1948, credit is due the management for not suffering more severely from sharply reduced volume. In each succeeding quarter of the current year, dividends have been reduced by 50 cents a share, payment for the third quarter having been at the 50c rate. Shareholders should soon learn whether the improved sales outlook warrants dividend stability at the current level, in the judgment of the directors.

Rheem Manufacturing

Although Rheem Manufacturing Company, an important producer of various items made from sheet steel, has reported lower sales than a year earlier in each of the three first quarters of 1949, both volume and earnings have steadily, if moderately, improved as the current year progressed. Net sales of $13.3 million in the September quarter compared unfavorably with $15.7 million for the same span in 1948, but in relation to volume of $11 million in the January quarter, the showing was encouraging. Better yet, the company in the third quarter reported net of 64 cents a share, exactly the same as in the final quarter of 1948 when volume was higher at $15.3 million. This circumstance indicates flexible and efficient cost controls that have recently come into play. Net sales of $37.1 million for nine months were about 14% below the same 1948 period and net earnings of $1.73 cents were 28% less, but it appears that the gap may shrink for the full year if no interruption in operations occurs to change the picture.

Dow Chemical Co.

Among the leading producers of chemicals, Dow Chemical Company seems to be operating at a relatively stable rate. Net sales of $47.5 million in the fiscal quarter ended August 31 were moderately below the previous three months, but slightly higher than in the same interval a year before. Somewhat higher operating costs reduced margins enough to trim net earnings to $1.04 per share compared with $1.15 in the corresponding period of 1948, a rather insignificant variation. Confidence of the management in the current year's outlook was expressed by payment of 40 cents quarterly dividends since June in contrast to 25 cents in earlier quarters.

In the highly competitive tobacco industry, Philip Morris & Company has had an outstanding experience in the current year, with both volume and earnings showing consistent quarterly gains. Sales of $125 million in the six months period ended September 30 advanced about 15.2% compared with the same span last year, while net earnings of $3.81 a share rose more impressively by approximately 40%. In the quarter ended September 30, the volume gain moderated to 7.8% while earnings of $2.06 per share compared with $1.95 in the related 1948 period. Firm tobacco prices and costly outlays for advertising conceivably may have accounted for the slight contraction in margins indicated. The continued high level of national income has benefitted the makers of cigarettes this year, aided by the increased number of young people reaching the smoking age. The company's domestic sales, both in dollars and units, were its largest in history during the six months period ended September 30.

Volume of McKesson & Robbins, Inc., prominent wholesalers of liquors and drugs, has varied moderately this year from quarter to quarter. Sales declined in the second quarter but rose by about $5 million for a total of $87.9 million in the September quarter, just about matching volume in the corresponding quarter of 1948. Net earnings of 98 cents a share, however, in the third quarter were below any of the four previous three months' periods, indicating that reduced prices or heavier expenses exerted some pressure on operating margins.

The most spectacular gains achieved to date in 1949 have undoubtedly been reported by the aircraft industry. Douglas Aircraft Company, for example, more than doubled its earnings for nine months ended August 31, compared with the related period a year before. Net profit of $5.1 million or $8.59 per share contrasted with $1.95 million or $3.25 per share a year earlier.

This concern got off to a good start in 1949, reporting a net of $3.34 per share in the quarter ended February 28, but slipped down to $1.62 a share in the May quarter. For three months ended August 31, though, earnings gained substantially to $3.63 a share. Sales and billings of $35.8 million in the recent quarter were about 40% higher than in either of the earlier periods, reflecting increased deliveries of AD attack bombers to the Navy. The backlog of Douglas Aircraft, however, expanded measurably, despite larger shipments, reaching more than $223 million on August 31, $23 million higher than three months before. Military contracts account for about 94% of unfilled orders, leaving only 5.7% for ordinary commercial business. The outlook of this concern seems bright in view of the large amount of unfilled orders and increased liberality by the Government on contract terms.

Oil Industry

While this year's earnings of virtually all the leading oil concerns are considerably lower than in the peak boom year 1948, they still compare very favorably with

most former years and a gradual uptrend in profits in the near term would not be a surprise. Shell Oil Company's volume of $204.7 million in the third quarter closely equalled that of the first quarter, despite reduced prices for many oil products. Compared with the second quarter, volume in the latest period advanced by $12 million and net earnings rose to $1.26 per share from $1.20. This showing, as pointed out, compares unfavorably with $1.97 per share earned in the 1948 September quarter, but covered the semi-annual dividend by an ample margin. Earnings of Shell Oil are reported on an exceptionally conservative basis because all development costs are charged against operating profits.

Sunray Oil Corporation in the September quarter moderately reversed a downtrend in sales that had been rather notable in the two previous periods. An advance in volume to $15.4 million, compared with $14.6 million in the June quarter, did not serve to improve earnings, however. Net of 32 cents a share in the three months ended September 30 was lower by 4 cents, and compared with 67 cents a share reported for the third quarter a year earlier, was sharply off. Sunray is spending substantial sums to develop oil leases in both Texas and in Alberta, Canada, and has made good progress in the current year, but the process tends to reduce margins. This is shown by the company's operations for nine months, indicating a rise of about $3.7 million in operating costs though volume was $2.8 million less. In consequence, net earnings for nine months declined to $1.13 a share in contrast to $2.14 for the same period in 1948.

Du Pont's Excellent Report

That E. I. du Pont de Nemours & Company's earnings for the current year are likely to outstrip those in 1948 is well indicated by the company's interim report for the September quarter and for nine months. Volume of $263 million for three months ended September 30 was almost $12 million higher than a year earlier in the same span, while net earnings on the comon stock (split 4 for 1 in June) amounted to $1.03 compared with 81 cents a share. Net for the nine months period was equal to $2.85 a share against $2.09 in the corresponding interval last year. As there is a chance that the final quarter may prove to be the best one of 1949, du Pont may well earn at least $4 a share for the full year compared with $3.28 in 1948 on the present stock. The company's sizable plant expansion, completed last year, has enabled it to increase sales of nylon, for which many new uses have been developed and which continues in very strong demand. Profits from this division have aided the gain in earnings.

Lower Sales Trend for National Supply

Operations of National Supply Company evidently were close to the break-even point in the September quarter, to judge from nominal earnings of only 4 cents a share in the period. This contrasted sharply with net of 87 cents in the second quarter and $2.01 a share for three months ended March 31, 1949. Volume has steadily declined in the last three quarters, a low of $30.9 million in the September period comparing with $40.4 million in the March span. The management takes a rather gloomy view of probable earnings in the final quarter, due to reduced purchases by the oil industry and the influence of the steel strike on operations.

Volume of Container Corporation of America in the September quarter rose to $28.6 million after establishing a low of $26.8 million in the preceding period. Though the latest volume figure was only slightly greater than sales for the first quarter, net earnings of $2.28 per share compared with $1.89, indicating a considerable measure of success in cost controls. It looks as if the experience of this concern to date in the current unsettled year is typical of many other enterprises benefitting from the fall pick-up in general business as well as from steps taken to institute cost savings.

The foregoing comment may also apply to Caterpillar Tractor Company as to flexibility of cost controls. Though volume of this company receded to $57.3 million in the September quarter from the previous level of $62.9 million, earnings advanced to $1.11 per share compared with 98 cents on the larger volume. In the third quarter of 1948, the company earned $1.22 per share on virtually the same volume as in the latest period. Net of Caterpillar Tractor in the final quarter this year will have to soar rather spectacularly to match the $3.91 per share reported for the last three months of 1948. Under current conditions, the chances for this appear remote, though if full year earnings are weighed against many years prior to the 1948 boom, they should seem satisfactory.

In the retail group, the third quarter experience of Barker Brothers developed some interesting trends. Sales of this leading West Coast distributor of household goods declined about 15% compared with the related span a year ago. The lower level of unit prices, combined with somewhat reduced demand, accounted for the reduced volume of $6.9 million as against $8.2 million in last year's September quarter. It is notable, however, that volume in the latest period was higher than in either of the preceding quarters in 1949, and as the final period should be the best of the entire year, further improvement seems likely. Earnings in the course of the five periods shown on our table have alternately declined and advanced but this pattern should now vary for the better, at least temporarily. To judge from net of 57 cents a share in the third quarter, earnings in the final period, marked by holiday buying, may reach around 75 cents, establishing a full year total of about $3.23 a share compared with $5.08 in 1948.

Good Year for Brewers

The brewing industry is one of the few that has not suffered adversely from recessionary influences in the current year. Sales of Goebel Brewing Company, for example, were somewhat higher in both the second and third quarters of 1949 than in any of the three preceding intervals, topping $7.3 million in both instances. With profit margins held fairly steady, net earnings of 41 cents a share in the September quarter compared with 38 cents last year. For seasonal reasons, results in the final quarter may be less favorable, possibly equalling 30 cents per share. In this event, final net for 1949 would come to approximately $1.46 a share compared with $1.12 last year, establishing an all-time high.

At least one large concern in the paper industry has experienced progressively lower sales from quarter to quarter over the space of a year.

St. Regis Paper Company's volume has gradually receded to $28.1 million in the September quarter from a level of $39.5 million in the same period a year ago. It seems clear that the company's break-even point has now been reached, as shown by a deficit of 2 cents a share for three months ended September 30. Contrasted with 60 cents a share in the same interval a year earlier, this showing is rather discouraging. The management, though, anticipates that improved demand will create an uptrend in volume and earnings in the final quarter, but as yet there is no improvement in prices. In the first nine months, idle plant time, currency devaluations and inventory losses made progress difficult, but as matters now look, these factors should exert less influence.

A prosperous year thus far has been reported by General Outdoors Advertising Company, with volume and earnings rather closely matching above-average showings attained last year. Increased outlays for promotional activities by many large advertisers have stabilized the operations of this leading exponent of highway publicity. On moderately improved gross revenues, net earnings have crept up to $1.16 a share from a low of $1.01 in the March quarter and 98 cents in the 1948 third quarter.

In contrast, the quarterly earnings of Eaton Manufacturing Company, a leading producer of automobile parts, are lower this year than last. and the trend has been moderately downward through 1949 to date. In the March quarter, this concern earned $1.51 per share on sales of $30.9 million, but on a volume of around $24 million in the second and third quarters, net declined to $1.05 and $1.01 a share, respectively. In 1948, volume and earnings spurted somewhat in the final quarter, but upset conditions in the steel industry may preclude a repetition this year.

Which Companies Show Best Return on Invested Capital?

(*Continued from page* 113)

than the 14.7% for Lehigh Portland, mainly accounted for by substantial charge-offs on foreign exchange, but the company earned more on net worth than its competitor.

With few exceptions, leading chemical concerns appear to have earned rather uniform and stable returns on their capital employed in the four-year periods under review. Five of seven concerns on our table earned an average of around 14% on net worth last year and variations in company experience were remarkably limited. Union Carbide & Carbon Corporation's dynamic expansion program in postwar, though, seems to be bearing unusually good fruit; the company's earnings on net worth have consistently risen since 1939. This ratio reached a peak of 23.1% in 1948. In studying the group of seven concerns it is notable that satisfactory results have been obtained though competition has tended to reduce profit margins substantially in the course of a decade.

Wide Margins of Sulphur Companies

Texas Gulf Sulphur Company and Freeport Sulphur Company stand out in the chemical group as regards unusually wide profit margins. This is because these two concerns largely control the production of sulphuric acid, in wide demand by many industries. Though prices for sulphur have remained exceptionally stable for decades, supplies of the raw material are strictly limited. Texas Gulf Sulphur has an operating advantage in larger deposits than its competitor and in exploiting foreign markets that permit higher prices. This concern earned more than 30% on sales in each of the four periods on our table and last year accomplished the astonishing feat of earning 56% on net worth. Freeport Sulphur's margins have been very stable at a lower level, but high royalties paid for materials have restricted gains. This concern, though, has recently completed construction of some new facilities that should prove beneficial. Except for heavy outlays last year for work in process, its return on net worth probably would have been larger than the 14.3% shown.

In relation to net worth, the earnings of can manufacturers appear to be surprisingly moderate and the same can be said for their ratio of profit to sales. Rising costs and heavy competition, despite large demand, held the net profit to sales ratio of American Can Company in 1948 to 5.5% and of Continental Can Company to 4.6%. Ten years ago both concerns earned better than 9% on sales. American Can Company, though, earned 11.6% on net worth in 1948, closely comparable to 11.9% in 1939, while the similar percentages for Continental Can Company were 10.2% versus 7.4%. Study of the four periods on our table suggests that though both of these concerns have long dividend records and per share earnings have been satisfactory, profits relative to net assets have been somewhat disappointing.

Electrical Industry

Our statistical tables provide some interesting sidelights on the operations of a few leading producers of electrical equipment. These come to the fore in noting that General Electric Company has consistently outdistanced Westinghouse Electric Corporation as to both return on net worth and profit margins on sales. In 1948, G.E. earned 22.7% on its net worth compared with 13% for Westinghouse. Going back to 1939, it will be seen that General Electric earned only 8.6% on net worth though its profits-sales ratio was 10.3% compared with 7.5% last year. This shows how importantly the factor of varying voluume can affect these two ratios. As Westinghouse Electric has recently reported its most prosperous nine months' period in history, it is possible that its earnings relative to net worth may show considerable improvement in the current year, barring possible upsets due to strike conditions.

Food Processors

Unusually narrow profit margins have always been characteristic of food processors, but in most cases they were lower than ever in 1948. Competition is now keen but volume of numerous concerns has expanded so substantially that net profits, despite reduced prices, have been generally satisfactory. Though Swift & Company, for example, earned only 1.1% on sales in 1948, profits were sufficient to represent 9.8% on net worth. It will be seen that net profit margins on sales of General Foods Corporation have steadily declined from 10.3% in 1939 to 5.2% in 1948, yet earnings in relation to net worth have held fairly steady, amount-

ing to 17.2% last year. The progress of this concern in postwar has been above-average satisfactory and in the current year has continued apace. Results of General Foods reflect sound and aggressive policies of the management. In similar manner, a downtrend in the profit margins of Corn Products Refining Company to a low of 6.4% in 1948 has not markedly reduced its ability to earn a fair return on net worth, as shown by a ratio of 9.7% last year compared with 10.5% in 1941 and 9.6% in 1939.

Considerable variation in both ratios under discussion appears evident in studying manufacturing farm equipment and special machinery. Larger investments in facilities, together with normally rather narrow margins on sales, tend to reduce returns on net worth of farm equipment manufacturers. Both International Harvester Corporation and Deere & Company established record highs in this respect last year, with ratios of 11.8% and 15.7% respectively. International Harvester, though, managed to widen its percentage of earnings to sales last year to 5.8% compared with 4.6% in 1946 and 3.7% in 1939. Whereas Deere & Company in 1939 and 1941 earned an average of about 11% on sales, the percentage declined to 7.6% last year.

Among distributors of consumer goods, Sears Roebuck & Company has substantially improved the ratio of earnings to net worth in prosperous postwar years. The company in this period has spent large sums to expand and modernize its retail outlets, policies that have paid off well. While net profit margins on sales have not varied much in the four years under review, greatly increased sales have created substantial profits. Applied to net worth, these earnings represented a ratio of 26.3% in 1946 and 24.5% in 1948, in contrast to 14.1% in 1939 and only 10.5% in 1941. May Department Stores Company, another top ranking distributor, has also earned more on net worth than in prewar, with a ratio of 14.1% in 1948 comparing with 9.7% in 1939. This concern's margins on sales have held relatively stable and volume gains have been substantial, but its large amount of inventories and physical properties represent aggregate values of a size that tends to reduce the margin of earnings to net worth.

In conclusion, it will be seen from our tables how the basic ability to earn a satisfactory return on net worth varies among different industries and companies within industries. Where outstanding performance is maintained in this respect, it is safe to assume that it has a definite bearing on the market valuation of shares. It is an important investment criterion though not always recognized as such by the less sophisticated.

(Continued on page 151)

Truman Ten-Year Plan

(Continued from page 110)

the higher living standards of free enterprise. But by then, free enterprise may be dead or beyond resuscitation.

The mere goal of raising the national income to $300 billion, as proposed by the President, in itself is not nearly as sensational as it may appear, since a relatively moderate increase in productivity would be sufficient to bring this about. What is disquieting is the idea that the increase is to be made a national goal under governmental auspices and responsibilities, marking an advance into new ground of centralized planning.

Government of course can easily increase dollar income without limit by inflationary methods. But only the efforts of individual producers seeking individual gain and actuated by incentives can increase physical output, which after all determines economic welfare. Thus an income objective, as stated in dollar terms in the ten-year blueprint, represents a standing temptation to resort to inflationary measures because they provide the surest and easiest way of reaching the goal.

In short, those proposing the planned welfare state, those who are ready to applaud such ambitious schemes as the Truman ten-year plan will have to ponder one important question: Will the methods and policies required to carry out this plan, especially fiscal policies, give assurance that the purchasing power of the dollar will remain stable over the years?

Right now nothing but deficits are ahead, certainly this year and next year when they may add up to as much as $12 billion — and the end is not in sight. All of which boils down to another question: How to make security secure? After all, without solvency of the Government, there can be no welfare state, and security cannot be secure! Thus in seeking security, we must first make sure that we don't jeopardize it, and in the end lose it, along with the individual freedoms which have been the hallmark of American civilization.

As I See It!

(Continued from page 105)

develop a re-orientation of policy despite the opposition which is bound to come, particularly from France.

In short, we are confronted with a situation which calls for statesmanship of the first order if we are to prevent a deterioration in our position in Western Europe where the pulling and hauling, the incompatibilities and the jealousies, are likely to continue to hinder us in a situation that would naturally favor the Russian ideological offensive. Whatever we do, it must be more carefully thought out and planned if we are to defeat Russia in the struggle for Germany and prevent her from further extending her power.

We must concentrate on Russia's weak spots in the same way that they focus their attacks on ours, and recognize that Russia is bound to become increasingly vulnerable as a result of her rigid policy. In the first place, her empire is extended over such a vast area that the Kremlin is faced with the serious problem of supplying adequate personnel to carry out her program and protect her interests. She is faced, too, with the serious fact that her economic accomplishments have not kept pace with her political successes in any of the captive states.

In China, for example, Russia will be unable to bring about economic equilibrium that will — in any way — match her political successes. The regime there is already resorting to slave labor, following the Russian pattern. Whether this will go over in China, however, remains to be seen, as the Chinese are a freedom-loving people with a history of rebellion against tyrants.

A consideration of paramount importance, too, is the growing

strength of Titoism that is developing — the first serious, organized opposition which Russia has experienced — making her increasingly vulnerable internally.

However, we cannot sit by and wait for the deterioration that all these elements of weakness can bring, but must help them to materialize. In this way alone are we likely to prevent a shooting war.

Factors Behind Unrealistic Market

(*Continued from page* 107)

with this, and especially with the first point. Under presently foreseeable conditions, it will not be dynamically inflationary, in the sense of boosting commodity prices generally or restoring sellers' markets, but it does limit deflationary pressures; and it does have some lasting effect on money supply and investment thinking, for the Federal debt thus created is more or less permanent.

To the extent that fear of deflation is reduced and the concept of "normal" is raised, a higher valuation can be put on prevailing earnings and dividends. With yields on representative common stocks in the vicinity of 6%, against a little over 2.5% for high-grade bonds (less on long-term Governments), it cannot be said that the stock market is in an extreme position. Average yields on industrial stocks were less than 3.5% at the 1946 bull-market high, and only a shade over 5% at the 1948 recovery high. Development of a 5% basis on present dividends could mean a material further rise in the market.

But the potentiality is largely conjectural. If there are supporting factors, there are also imponderables which put a ceiling on confidence. Thus, President Truman has already launched his drive for higher taxes—meaning, of course, higher taxes on corporations, the rich and the upper-middle classes. He is unlikely to get them in an election year. But his Welfare-State program has made considerable progress. If there are some inflationary implications in a Welfare State, there are also inevitable implications of eventually higher taxes and of broad economic controls. The British stock market does not thrive under a Welfare State. Neither would ours. Aside from anything else, the basic political trend, unless and until it is significantly changed, is probably an effective barrier to a real bull market.

Finally, many of those who are now more confident feel so not on any reasoned basis, but merely because of the market rise. As usual, optimism will be far greater at the top of this phase than it was at the beginning. It remains a thin market — so much so that liquidation of sizable blocks of stock, and much of this is going on, has to be by distribution outside of the auction market, on other than a bid-and-ask basis. It can in due time react about as readily as it has risen. A selective and generally conservative investment policy remains in order.

—Monday, October 31

Which Companies Show Best Return on Invested Capital?

(*Continued from page* 149)

Among producers of automotive parts, the element of volume has been a transcendent factor in appraising margins on net worth. Competition is so keen in this industry because of concentration of a relatively few customers in the specialized field that operating margins normally are rather narrow. Then, results from period to period are apt to differ considerably for numerous reasons.

The influence of largely increased sales in expanding the return on net worth is well shown by the experience of Borg Warner Corporation. A record volume in 1948 enabled this concern to earn 23.2% on net worth, compared with 14.6% in 1939. Comparisons with 1946, when this percentage was only 10.6%, carry little significance because of very abnormal conditions prevailing in that year. When Borg Warner earned 8.4% on sales in 1948, a year in which volume rose impressively, the rise in net earnings was sufficient to push the margin on net worth up in an interesting manner.

Bendix Aviation

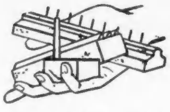
It will be noted that the net profit margin on sales of Bendix Aviation, as well as the return on net worth, were lower in 1948 than in 1939 or in 1941, in the latter case markedly so. Following the termination of hostilities in 1945, reduced orders for military equipment in 1946 shrank earnings of this concern unduly, distorting comparisons. In earning 6.9% on sales and 13.4% on net worth in 1948, Bendix Aviation, as said, did less well than in earlier periods but the experience probably could represent an average expectancy.

Our table shows that Briggs Manufacturing Company has consistently earned only a slim percentage on volume, but on sharply increased sales in 1948 net profits rose correspondingly to establish a 22.4% return on net worth. Considering the company earned only a meager 3.9% on sales last year, the relatively high percentage earned on net worth carries a good deal of significance.

Leading Biscuit Manufacturers

Two of the leading biscuit manufacturers, National Biscuit Company and Sunshine Biscuit Company, had unusually prosperous years in 1948 and their net profit margins on sales varied rather little, National earning 5.6% and Sunshine 6.7%. As for their returns on net worth, on the other hand, the variation was broad with National Biscuit Company earning 14.7% compared with 23.4% for Sunshine Biscuit. Very similar percentages applied to the two concerns in 1946, a year in which this industry gave a good account of itself because of few reconversion problems and excellent demand for their products.

In 1939 and 1941, though, Sunshine Biscuit earned only 4% and 4.8% respectively on net worth and its margins on sales were less than 3%, a far poorer showing than for its competitor at that time. In explanation of Sunshine Biscuit's more recent improvement, it is probable that this concern undertook a complete modernization program well ahead of National Biscuit Company, and thus was able to achieve cost savings a good deal sooner. In the last two years, National Biscuit has made strides in improving its methods of production, and its sizable outlays for modern equipment may enable it to earn a larger return on net worth before very long.



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BOOK REVIEWS

WHOLESALING, PRINCIPLES AND PRACTICES

By Theodore N. Beckman and Nathanael H. Engle

With its root extending deep into the past, and persisting through the ages as an integral and essential part of trade and commerce, wholesaling is indispensable and universal. In volume of business, it exceeds retailing or manufacturing. It furnishes the battleground for the competitive struggle in which the goal is a more efficient marketing system. Consequently, a thorough understanding of the essence of wholesaling, its component parts and their functioning in the busines world, and the proper management of a wholesaling enterprise may hold the key to the solution of many perplexing marketing problems and pave the way to enhanced efficiency in the performance of the wholesaling task. This book gives the full history of wholesaling, describing its nature and evolution, wholesaling practices in the United States and abroad, the operation and management of a wholesale business, and the economic and government aspect of the subject. Replete with numerous illustrations and tables, the book should find a useful place on the shelf of every business man connected in any form with wholesaling.

The Ronald Press Company $5.00

TOWARD SOCIAL ECONOMY

By Howard R. Bowen

Since the first step in the study of economics is to obtain a clear conception of what the economic system is and what it does, this book is admirably suited to accomplish the purpose. It presents a view of the whole economic system and shows how it fits into the more comprehensive social fabric. The expressed intention is to help the reader place his prior studies of economics into the proper perspective, and to provide a useful background for his future studies in the field. Although the book is not purported to be a self-sufficient compendium on economics, it nevertheless provides the framework of a complete course in economics. The author had had considerable experience teaching economic theory, and felt an urgent need for organized textual material to cement together such subjects as institutional theory, production theory, value and distribution, welfare economics, etc. He has successfully done so.

Rinehart & Company, Inc. $3.00

MARKETING AND DISTRIBUTION RESEARCH

By Lyndon O. Brown

In response to numerous requests from busines executives, teachers, and practitioners, this book has been expanded and brought up to date since the first edition first appeared in 1937. The current text shows how the application of marketing and distribution research methods can improve the efficiency of marketing operations and reduce the cost of distribution. It is a basic volume, covering all aspects of the subject so that the business executive, student, and research technician may obtain a broad understanding of both the uses and methods of research in marketing. It is purposely written so that readers without a technical research background may find an understandable but thorough treatment of the subject. At the same time, technical procedures are described so that the trained technician will have an exposition which brings into source the best professional practices of the day. Incorporating new methods and new knowledge of research procedures, with more emphasis on specialized applications, such as product research and opinion research, and with a full explanation of the basic scientific principles, the volume is well worth studying by all concerned.

The Ronald Press Company $5.00

TECHNICAL ASSISTANCE FOR ECONOMIC DEVELOPMENT

By United Nations Social and Economic Council

This book outlines the objectives of the United Nations to assist underdeveloped countries to take advantage of modern techniques for economic development, and to help them achieve for themselves the material and social benefits of sound, balanced economic development. Great possibilities for this exist in most of the less-developed countries and in many of the non-metropolitan territories. The text shows the effects of economic development by citing the difference between the more and less developed countries. Drawn up by a committee of experts, the book gives detailed proposals for acomplishing economic development, outlining methods of financing, planning, coordinating, and execution.

Columbia University Press $2.50

INDUSTRIAL PSYCHOLOGY

By Thomas Willard Harrell

This book goes on the basic assumption that the chief contribution psychology can make in industry is to analyze the problem of labor-management cooperation and to develop techniques which will facilitate such cooperation, for it is very obvious that industry can operate smoothly only when labor and management are willing to cooperate. In recent years psychologists have been able to show that they are able to make significant contributions toward the solution of this fundamental problem of our economy. Since the activities of people at work are affected in important ways by what is done at home and in other places away from work, this study is not restricted entirely to activities during employment. Then human activities of importance are the activities of a worker while working and his reactions to other workers, to working groups, and to other groups. These social reactions are regarded by some authorities as the most important current problems of industry. The book analyzes in a very comprehensive manner the scientific ways of predicting and controlling human behavior in order to improve human relations in industry. Containing numerous tables and charts, this volume should be in the hands of everyone concerned with industrial harmony.

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WEALTH AND WELFARE

By Norman Ware

This is a rare piece of writing — a lively and witty book about economics. Mr. Ware has demonstrated an almost miraculous ability to retain the interesting aspects of his subject, while dispensing with the gobbledygook and that ponderous trick of saying everything three times which is practically par for the economics course. In these headlong pages he manages to describe and explain the chief economic developments of the last thousand years of Western civilization. Mr. Ware's extraordinary facility for compression is the result of a thorough and extensive knowledge of the history of economic thought.

Mr. Ware offers a historical perspective that clarifies our responses to the welter of economic theories about what is happening to the world today. He gives the reader a vivid sense of the traditions as well as the dynamics of contemporary economic systems. "There were a number of economies before free enterprise," he writes, "and there are at present at least two — Socialist and Fascist — that have been embraced by millions of our fellow men. The way to understand our own economy is to examine its predecessors and the historical conditions under which they rose and declined."

William Sloane Associates $2.50